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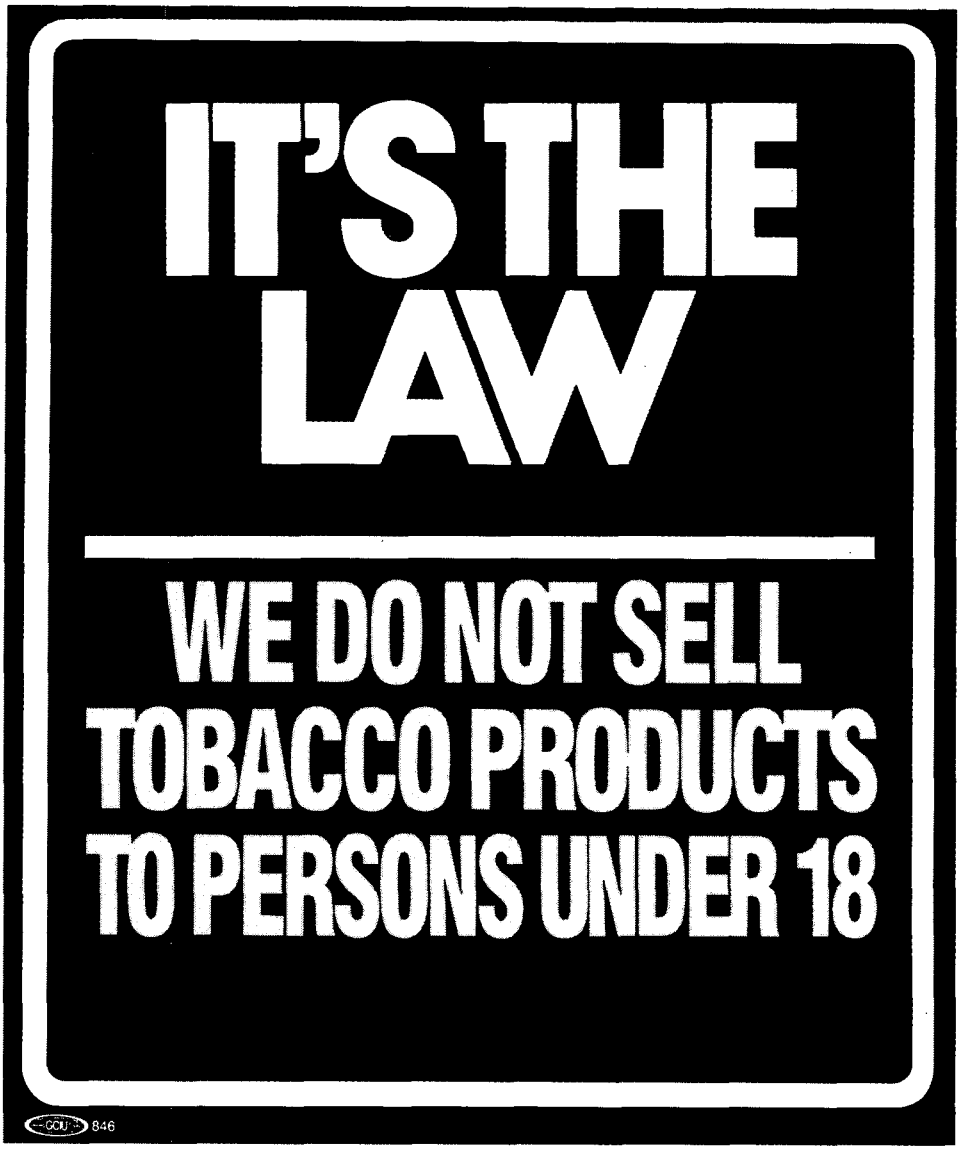

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Free Minds and Free Markets

January 1993/Vol. 24, No. 8

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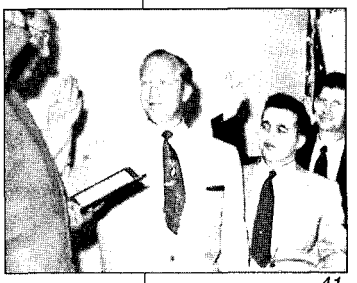

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LOST CAUSES

VIRGINIA I. POSTREL

Some of the Republican party's biggest losers this election day weren't on the ballot: Pat Robertson, Pete Wilson, and William Weld.

November 3 was, most obviously, a very bad day for the Christian right. After more than 12 years of significant influence in the Republican party, they finally scared the bejeezus out of suburban America. Instead of valuable allies, they became liabilities for Republican candidates.

In California, every congressional candidate outside Orange County who received money from the religious right lost, even in "safe" Republican districts. Barbara Keating-Edh, for instance, has spent her career opposing Naderite product and environmental regulation, arguing that free markets best represent consumer interests. She is not exactly famous for her stand on abortion or prayer in the schools. But in her congressional race, she became "the candidate of the religious right." Originally favored to win, she lost by two points.

And in suburban Virginia, Henry Butler—a libertarian Republican who beat Robertson's candidate in the primary—found himself under attack simply for trying to woo votes at a Christian Coalition meeting and for opposing tax-subsidized abortions. In a close race, the hint of a tie to the Robertson right (and the distraction of defending himself against those allegations) proved disastrous. Butler lost with 48 percent of the vote.

Somehow this year, America saw conservatives the way liberals have long wanted them to—as coercive utopians. Maybe it was because the smarmy Robertson, who overtly craves political power, has replaced the pastorly Jerry Falwell, who always seemed primarily a spiritual leader. Maybe it was because the Gulf War brought fundamentalist Islam into American living rooms and reminded women, in particular, why theocracy is bad for their rights.

But it was probably just good press—the kind most political groups lust after. During the Republican convention, the networks told America that the Robertson right was powerful and influential. Reporters broadcast a slice of the convention that was heavy on culture warriors and women-as-mothers, light on supply-siders and women-as-trade-representatives. They made abortion the number one issue.

The coverage was slanted, terribly so, but it was a slant the Christian right encouraged. As a result, the Houston Republicans looked a lot like the old San Francisco Democrats—blaming America first, portraying the country as evil, asking voters to hate themselves and their neighbors. That's the way you lose elections, and for very good reasons.

But if election day was hard on the religious right, it was equally bad for some of their sworn enemies. No one was more humiliated than California Gov. Pete Wilson, a man who has spent the last four years smearing fiscally conservative opponents with the Christian right label.

By any measure, Wilson lost big time. A *Los Angeles Times* exit poll put his approval rating at a mere 28 percent. His welfare- and budget-reform initiative lost 57 percent to 43 percent. People thought it would give the governor too much power.

And the man Wilson appointed to succeed him as senator, John Seymour, proved a pathetic candidate—George Bush without the charisma. Like Wilson, Seymour is a "moderate" who, lacking any positive platform, had to fall back on divisive TV commercials linking immigrants and crime. But fear didn't sell.

Seymour's defeat might not have made Wilson look so bad if it hadn't been for the contrast with "extremist" Bruce Herschensohn. Herschensohn is everything Wilson and Seymour aren't—a principled "constitutionalist" who actually talks about the proper role of government and an inclusive free-market man who actually supports immigration. Herschensohn lost by 5 points, Seymour by 17.

Finally, voters had a message for the new school of "socially liberal, fiscally conservative" Republicans who love environmental and civil-rights regulation: Let us mind our own business. Bill Clinton would be wise to listen up, too.

From Maine to California, Americans turned down new regulations and repealed old ones—from mandatory health benefits to cancer warning labels. In Massachusetts, voters rejected by a nearly 2-to-1 margin an environmental measure strongly backed by self-described "libertarian" Gov. William Weld. It would have required every package used in the state to be "reusable at least five times,...reduced in size by at least 25% every five years,...recycled at a 50% rate or composed of 25% or more recycled materials."

The measure's goal was to create greater markets for recycled materials. But for anyone who bought or sold any packaged good in Massachusetts—from soap to office supplies to machine parts—it was a compliance nightmare. The record-keeping alone would have cost millions of dollars. Voters saw it for the wasteful

central planning it was and opted to keep Massachusetts's struggling economy on a more market-driven footing.

On gay rights, voters seemed consistently anti-regulation. By a substantial margin, they rejected Oregon's Measure 9, which would have amended the state constitution to declare homosexuality "abnormal, wrong, unnatural, and perverse"—making anti-gay bias the law. But in Colorado and a number of cities, propositions to repeal local anti-discrimination laws passed.

To gay-rights supporters, the Colorado vote in particular looks like a win for bigotry. The measure's sponsors were, certainly, anti-gay. But lifting anti-discrimination laws is not the same as mandating discrimination—by either the state or private citizens. And the margin of victory came from voters who saw anti-discrimination laws not as statements of equal rights but as guarantees of special privileges. These swing voters were anti-regulation, not anti-gay.

None of this is to suggest either that the majority is always right or that the American electorate has suddenly swerved from its historic pragmatism to adopt even a vague libertarianism. In the face of Bill Clinton's victory, even if seen as George Bush's loss, such conclusions would be the height of stupidity.

Americans still expect too much from government. But respect for convictions and for private life—whether religious, moral, sexual, or economic—also runs deep in our character. This election affirmed that respect. And for those who care more for principle and policy than party or personality, that is good news.

REAGAN'S FOURTH TERM

RICK HENDERSON

Bill Clinton's electoral landslide did not signal, as E. J. Dionne opined in *The Washington Post*, "the end of the age of heroic conservatism,...overturning the verdict reached in 1980." Gloating pundits and Democratic operatives fail to understand that voters didn't reject the essence of Reaganism; instead, they tried to elect Ronald Reagan to a fourth term.

As Peggy Noonan noted in *The New York Times*, George Bush blundered when he "thought the American people voted for *him* in 1988. They didn't. They voted for the continuation of basic Reaganesque policies, which is what George Bush said he stood for."

Instead of getting Reagan II, however, voters ended up with Nixon Jr.: a president completely engrossed with foreign affairs who cynically delegated domestic policy to regulators and technocrats. This election day voters turned to Bill Clinton, the candidate who most clearly articulated an optimistic and inclusive vision of the nation's future.

Yet Clinton sent mixed messages. He ran as Reagan and anti-Reagan, an optimist who attacked Bush for breaking his no-new-taxes pledge while simultaneously savaging "trickle-down economics." Clinton's inconsistencies could shatter the high expectations his campaign encouraged. Consider:

• *Reagan ran against government; Clinton ran against Washington.* In the much-ballyhooed "year of the outsider," the Arkansas governor ran as a New Democrat ready to fix the mess in Washington. Longtime Clinton adviser Sen. David Pryor (D-Ark.) says the new administration will bring "a new vitality to government." But Clinton's campaign book, *Putting People First*, cites three problems with Washington: gridlock, PACs, and lobbyists. Clinton thus implies that he will sign every bill Congress passes. But wait. He also wants a line-item veto to restrict pork-barrel spending. Which will it be?

And by railing against all special interests, Clinton incredibly suggests that any president, Democrat or Republican, can shut out the organizations that actively worked for his election.

• *Reagan tried to empower individuals; Clinton hopes to empower government.* Reagan was not, as his critics argued, merely an apologist for corporate fat cats. His 1984 "America is working again" commercial tied government spending cuts to an explicitly individualistic message. "If the dream that built America is to be preserved," he said, "then we must not waste the genius of one mind, the strength of one body, or the spirit of one soul."

Echoing Reagan, Clinton likes to say, "We don't have one person to waste." And in *Putting People First,* he declares, "the answer to every problem cannot always be another program or more money." Yet this same document proposes more than 40 new government programs that will add $220 billion to the federal budget. Go figure.

• *Reagan won by clearly articulating a consistent message; Clinton's priorities are indecipherable.* Ronald Reagan could summarize his agenda in 10 words: Cut taxes. Cut spending. Cut regulations. End inflation. Rebuild defense. His record on the first three was mixed, at best. But he never lost his focus.

Even Clinton's most vocal supporters admit they have no idea what initiatives the first 100 days of the new presidency will feature. November 8 on *Meet the Press*, *Newsweek*'s Mark Miller, who received virtually unrestricted access to Clinton and his staff during the past 14 months, issued a warning: Since Clinton tries to listen to every ideological perspective, his administration may have no voice of its own.

Neither "every day, in every way, we are getting better and better" nor "putting people first" constitutes a governing philosophy. Bill Clinton will have to reinforce his optimism with policies that indicate a sense of direction.

Voters rejected George Bush once they found he wasn't Reagan II. They could quickly lose patience with Bill Clinton if he isn't Reagan III. Ronald Reagan's fifth term begins January 20, 1997.

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LETTERS

Poor George

Thomas Hazlett's "George of the Bungle" (Nov.) was beautiful, including the remark that Bush "did blow the Gorbachev-Yeltsin transition by a few months." But what on earth does Hazlett mean by "I'll give him credit on most else" in foreign-policy initiatives? Such as the bungled war against Saddam Hussein? Siding with the Soviets against the Baltics? With the Soviets against the Ukraine? With Angolan communists against UNITA? With Mozambican communists against RENAMO? With the communist ANC against Buthelezi and De Klerk? With the Tiananmen Square murderers? With communist Serbs against Croatia and Slovenia? Even, semi-retroactively, with communist Sandinistas against the Contras by refusing to stop the protracted persecution by Special Prosecutor Walsh of Reagan officials who tried to help the Contras?

The foreign policy of George Bush has been every bit as disastrous as his domestic one.

K. A. Skala
Denver, CO

THERE'S A TIME TO BE FUNNY and a time to be serious, and in times like these (as in most times, I suppose), it seems appropriate to question the timeliness and wisdom of Thomas W. Hazlett's choosing to vote Democratic. Would he really prefer four years of people trying to impose the Democratic platform and, perhaps more important, liberal judges like Laurence Tribe on us?

His criticism of George Bush is quite accurate, but would you take refuge with the lions to escape the trainer? Better to hold our noses for Bush, Darman, et al., than to bed down in the garbage.

W. Edward Chynoweth
Sanger, CA

Serb Curbs

Charles Oliver rightly opposes military intervention in the conflict between the ethnic groups of what was once Yugoslavia ("Balking at Intervention," Oct.). But I take issue with his suggestion that we should provide weapons to one side or the other. An alternative would be to put pressure on the states that are currently supplying weapons in the area.

The Serbs seem to be fairly well supplied by someone, and it doesn't seem that they would have the resources to continue purchasing weapons for very long.

If Serbia has no regular supplier, then soon they will start running out of weapons and ammunition, and the area will demilitarize naturally. On the other hand, if some power is providing weapons to Serbs, they should be strongly encouraged to discontinue that practice. In any case, if we provided weapons for the Croats and Bosnians, someone else would be likely to provide weapons for the Serbs, and there would be no humanitarian benefit.

John A. Bennett
Sequim, WA

THERE MAY BE GOOD REASONS for not intervening in Bosnia militarily, but Charles Oliver has trotted out the same weak set used by the administration, the ones that Margaret Thatcher called "excuses."

Oliver states that in the case of Germany we were dealing with a "superpower bent on continental domination." But that wasn't realized until after Germany had occupied the Rhineland, occupied the Sudetenland, occupied Czechoslovakia, and then made demands on Poland. How do we know where Milosevic intends to take us?

Oliver states that "no vital American

interest is at stake." The same was said during the German occupations mentioned above. How does he know?

He says that we would probably demand that ground troops be sent in if any of our planes were shot down, should we be so rash as to use them. (I don't see the connection. How are ground troops going to prevent planes from being shot down? A U.N. plane has already been shot down, and no one is calling for ground forces.) He then has us embroiled in a ground war without aid.

How would Oliver apply his arguments to the "no-fly" zone in Iraq, where one has the same circumstances holding between the Iraqi army and the Shiites? The administration professes to see a difference. Does Oliver?

D. P. Squier, D.O.
Pensacola, FL

Mr. Oliver replies: Whatever the intentions of the Serbian government, they have neither the size nor the relative power that Nazi Germany had. The threat of Serbia conquering Europe is quite small. Dr. Squier asks how I know that no vital American interests are at stake in the former Yugoslavia. I don't, but then I'm not advocating military intervention. The burden of proof is on those who are.

Outside Information

A recent "Brickbats" item (Oct.) quoted me and reported that "animal lovers want to make it illegal for people to let kitties out of the house." To my knowledge, the only law either on the books or proposed anywhere that obliges cat keepers to keep cats indoors was passed recently by Natick, Massachusetts—not at the behest of "animal lovers" or "animal rights" activists, who mostly opposed it, but rather as a panic reaction to the Atlantic seaboard raccoon rabies pandemic.

I do not advocate keeping all cats indoors; in fact, I have 22 cats who go outdoors. I do advocate keeping housecats indoors in most urban situations, mainly because exposure to automobile traffic cuts feline life expectancy by two-thirds. But when one lives well away from heavily traveled roads and neighbors who might object, I see nothing wrong with letting healthy cats out in the daytime, if they want to go. The risk that they might come into contact with rabid raccoons, fall victim to predators, or kill ecologically risky numbers of smaller animals is relatively slight during daylight hours, exponentially higher at night.

The description of housecat behavior attributed to me was part of a comparison between the hunting habits of feral cats and those of pet cats, both of which I have observed at close range on a daily basis for over 15 years. The full context would have made it clear that, as a longtime environmental journalist and wildlife ecologist, I am in no way just discovering that cats kill "cute creatures."

Merritt Clifton
Animal People
Shushan, NY

Sudden Disinflation

Thank you for Stephen Moore's review of Robert Bartley's *The Seven Fat Years* ("The Best Years of Our Lives," Nov.). As Mr. Moore observes, many tired myths about the 1980s persist. Even Mr. Moore becomes encumbered in one. He writes that a "general fault of almost all supply-siders" is to be "soft on spending" and that it was "the utter failure of the Reaganites to restrain government with the same zeal they had for cutting taxes."

This is nonsense that speaks to the success of the political left in framing the debate, even for libertarians. The debate as framed by the supply-siders was over the question whether fiscal policy works by changing aggregate demand or by changing the supply of labor and capital in the market. The political left did not want the debate to be framed in this way, because they would lose. Keynesians maintained that high tax rates did not matter because they curtailed (only) private demand but not aggregate demand, as long as the government spent the money. Supply-siders showed that the policy of pumping up aggregate demand while high taxes reduced the incentives to supply resulted in stagflation. With demand up and supply restrained, prices rose relative to real output.

The political left reframed the argument into one of fairness: Whose spending programs and entitlements did the supply-siders propose to cut in order to give tax cuts to the rich? Conservatives and the Republican establishment fell into this trap, while the supply-siders refused to enter it.

The "Reagan deficits" are not the result of a lack of zeal to cut spending. They resulted from unanticipated disinflation. The inflation rate over the multiple-year budget period simply collapsed relative to everyone's forecast. Altogether, nominal GNP came in $2.5 trillion below the budget forecast, and this is why the revenue projections were off. Similarly, the unexpected disinflation meant that budget expenditures were larger in real terms than intended.

These elementary facts are easy to ascertain and to understand. The fact that they are widely ignored attests to the pitiful state of the public-policy debate in the United States.

Paul Craig Roberts
Center for Strategic & International Studies
Washington, DC

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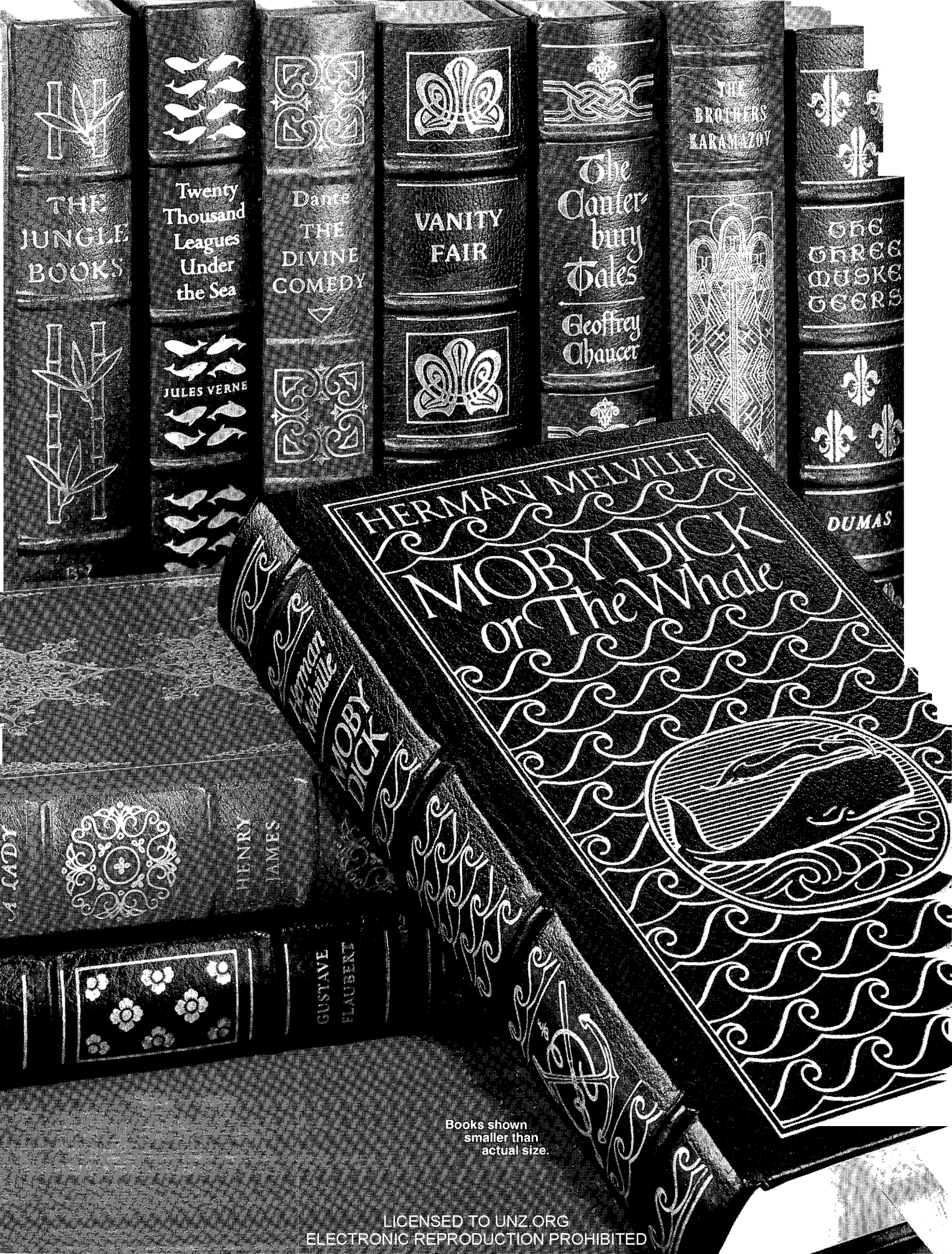
Milken's Creation

Thank you for the sanest piece on junk bonds I have seen since Michael Milken got a phone ("Din of Lies," Nov.). Milken is no saint, but he is a magnificently gifted investor. It's nice to see someone look logically at his creation.

Dave Blackmon
Etiwanda, CA



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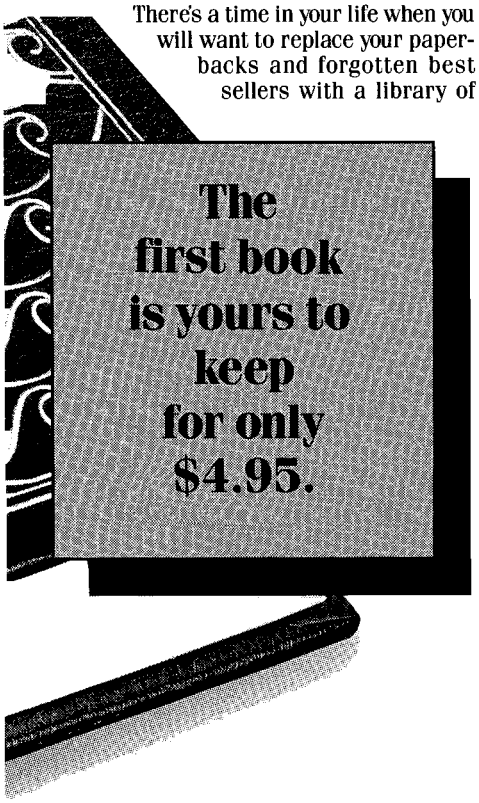

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For the Record

The sentences required by state and federal drug laws have led more than one judge to reconsider his support for prohibition. But a recent study suggests that the total punishment received by drug offenders is even heavier than commonly realized.

Writing in the *Journal of Legal Studies*, University of Pennsylvania economist John R. Lott notes that drug offenders continue to bear the costs of conviction long after they've paid their fines and served their time. He reports that "the most significant portion of the monetary penalty imposed upon criminals takes the form of reduced legitimate earnings once they return to the labor force."

Lott performed a regression analysis using data on 369 drug offenders sentenced by the federal court system between July 1984 and July 1985. He compared incomes during the 12 months prior to sentencing with incomes during the last 12 months of probation or parole.

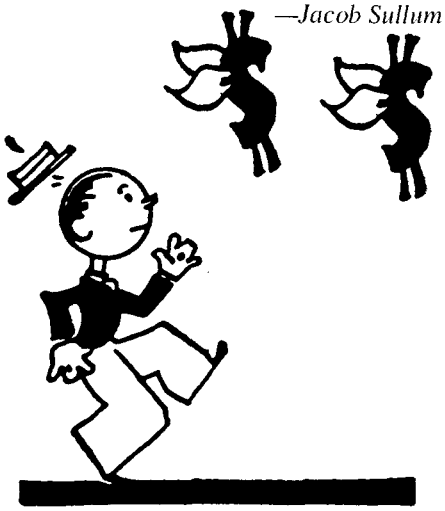
"Even though the data deal with a very limited period of time after conviction," he concludes, "the effect of conviction on legitimate earnings clearly outweighs the sum of the criminal's forgone income from imprisonment and expected fines and restitution; except for heroin and cocaine importers, it is usually between 82 and 97 percent of the total monetary penalty."

Offenders with higher presentence earnings tended to lose bigger shares of their incomes. Consider a single, white man from California with no previous criminal history who is convicted of cocaine or heroin importation. If his annual legal income was $19,600 a year before sentencing, his loss would typically amount to about $2,300 a year, or 12 percent. If he earned $35,650 a year, he would lose about $17,260 annually—nearly half his income.

Lott offers several explanations for lower postconviction incomes, including loss of business or professional licenses (or the opportunity to obtain them). Perhaps the most significant cause is damage to reputation: Employers are apt to view convictions, even when they do not involve a breach of trust, as a sign of dishonesty.

Indeed, Lott notes, criminal defendants may lose their jobs soon after being arrested, before they are convicted (and even if they are ultimately acquitted). In a recent U.S. Sentencing Commission study, the average defendant's nominal income fell by about 40 percent between the date of the offense and the date of sentencing, a period that lasted an average of two years and seven months. Lott cites this effect as one reason why his study, which uses income figures for the year before sentencing as a baseline, actually underestimates the total income losses associated with conviction.

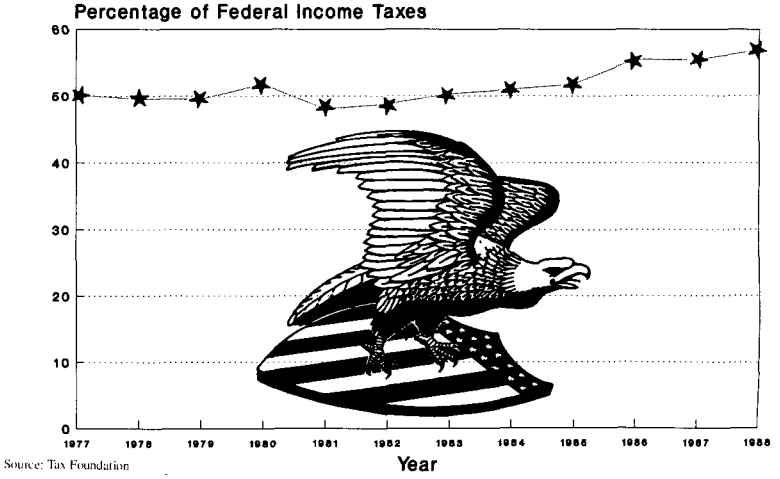
—Jacob Sullum



The Fat Got Fatter?

One of the more recurrent charges against Ronald Reagan's presidency is that he cut taxes on the rich and raised them on the middle class. It was a consistent theme in Bill Clinton's presidential campaign. But the charge doesn't stick. In 1980, the last year of the Carter presidency, the top 10 percent of taxpayers paid 51.8 percent of federal income taxes. By 1988 they paid 56.9 percent of federal taxes.

SHARE OF FEDERAL INCOME TAXES PAID BY TOP 10% OF TAXPAYERS



Source: Tax Foundation

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"Liberties and masters are not easily combined."

—Tacitus

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The Institute for Humane Studies will award cash prizes for the best essays on a selected work of literature, using the Tacitus quote as a theme. Contest open to undergraduate students.

$5,000 top prize. $15,000 prize money in all.

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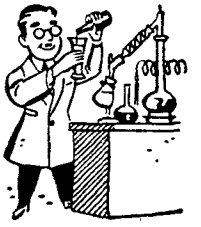
BALANCE SHEET

Assets

Chicago Club? Gary Becker wins the Nobel Memorial Prize in Economic Science. The University of Chicago economist has applied free-market theory to such "non-economic" problems as race discrimination, divorce, and criminal punishment. Says World Bank economist Larry Summers, "As Milton Friedman was to macroeconomics, Gary Becker is to microecomomics."

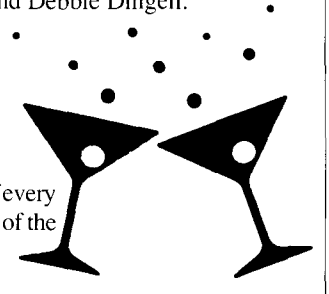


Diet Plan. The Senate postpones new regulations on food supplements until December 31, 1993. (See Trends, Oct.) In January, regulation opponent Sen. Orrin Hatch (R-Utah) will reintroduce the Health Freedom Act, which lets vitamin makers tout legitimate health claims without fear of FDA reprisals. Enjoy your One-A-Day.

Volcanic Disruption. Climatologists feared debris from Mount Pinatubo could destroy 30 percent of the temperate-latitude ozone layer. (See "The Hole Story," June.) Instead, reports *Science*, the volcano's actual effect was "modest at best"—perhaps a 5-percent temporary depletion. Even after Pinatubo, NASA researchers say ozone levels are *above* the record lows noted in 1987, 1989, and 1990.

Taking Initiative. Fourteen state ballots offer term limits. (See Trends, Nov.) The score on Nov. 4: term limits, 14; career politicians, 0. Foes of the initiatives unsuccessfully portrayed libertarian term limiters as dangerous kooks. But voters feared term-limit foes, led by such powerful political spouses as Heather Foley and Debbie Dingell.

Liabilities



Party On. Federal, state, and local taxes soak up 42 cents of every dollar we spend on booze, notes the Distilled Spirits Council of the U.S. This holiday season, raise your glass to the revenuers.

Food Fight. European Community farmers have slapped punitive tariffs on U.S. soybeans since 1987. GATT officials tell the E.C. to play fair; the Europeans refuse. Agriculture Secretary Edward Madigan promises to double tariffs on $300 million of imported wine, gin, and cheese. Forget health-care reform: Bill Clinton must first prevent a full-blown trade war.

Road Block. The private plan to extend northern Virginia's Dulles Toll Road dies. (See "Private Extension," Jan. 1990.) The recession prevents the Toll Road Corp. of Virginia from raising $300 million for its 15-mile addition. The General Assembly will now try to get federal money and make the extension a public-private partnership.

Breaking Waves. The FCC fines Los Angeles radio station KLSX a record $105,000 for Howard Stern shows it aired in 1991. (See "Penises and Politics," Oct. 1991.) *The Washington Post* reports the feds use the fines to frighten new stations scheduled to air Stern's broadcasts. And just wait, Howard: Tipper Gore may run the Broadcast Police before long.

—Rick Henderson

Wild at Heart

Conservationist Aldo Leopold, author of *A Sand County Almanac*, argued that land has an ecological value that exceeds the commercial value of the game or crops it can support. His successors at the Madison, Wisconsin–based Sand County Foundation say that, with a little effort, property owners can restore habitat for plants and animals that was lost when the land was first cleared.

"Aldo Leopold didn't believe that only the government can fix destroyed land," says foundation president Brent Haglund. "Individual landowners can make a difference."

Since 1980, Wisconsin farmers have abandoned more than 1.5 million acres of unproductive farmland. The foundation sees this unused property as an opportunity for landowners to reintroduce controlled natural processes of land restoration. Fire, predation, and pollination can replace the chemical pesticides and herbicides that often contaminate the area's shallow aquifers.

Merely restoring natural processes often enables rare plants and animals to re-establish themselves in the wild. On the 1,500-acre Leopold Reserve, which the foundation manages, some species of native flowering plants that haven't existed since Leopold's time are growing again. The sharp-tailed grouse almost disappeared from the area because it lived in the undergrowth that foraging deer have eaten; this bird is also making a comeback.

Each year, the foundation sponsors seminars that show business and institutional executives how to use Leopold's "land ethic" to restore natural processes on property that is either unused or has little commercial value. The foundation also hopes to demonstrate that ecological processes can restore wetlands more economically than the government's dredge-and-fill techniques. It has set aside sites in California, Minnesota, and Wisconsin where it will conduct side-by-side tests to compare the methods.

—Rick Henderson

Greengate

The Department of the Interior has been funneling millions of dollars into the coffers of environmental groups through a process that appears to be ethically improper. That's the conclusion of an audit report by the department's inspector general.

Since 1986 Interior has spent almost $1 billion to buy new land. Much of that money has been paid to environmental groups, including the National Audubon Society, the Trust for Public Land, and the Nature Conservancy.

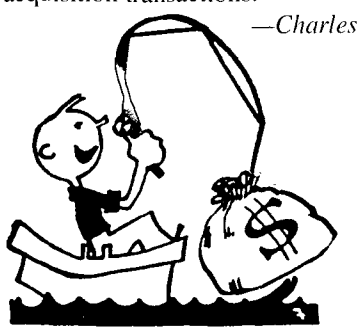
But the inspector general found that different departmental bureaus had paid more than the appraised value of the land in 64 of 130 audited purchases from these groups. The amounts of overpayment ranged from a few thousand to several hundred thousand dollars.

For example, the Fish and Wildlife Service paid $1 million in 1987 to the National Audubon Society for 777 acres along California's San Joaquin River. The audit found that was $700,000 more than the market value of the land.

In addition, the audit found that in 71 cases the department violated policy by using old appraisals that did not accurately reflect the value of the land—when local land-use boards learn that Interior considers land sensitive, they often slap on zoning restrictions that drive its value down—and by allowing the nonprofit groups to appraise the land themselves.

In typical bureaucratic language, the report concludes that "the Government's interests were not always adequately protected" and that the environmental groups "benefited unduly from some of the land acquisition transactions."

—*Charles Oliver*



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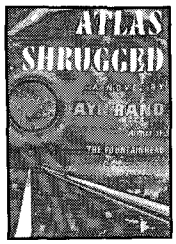

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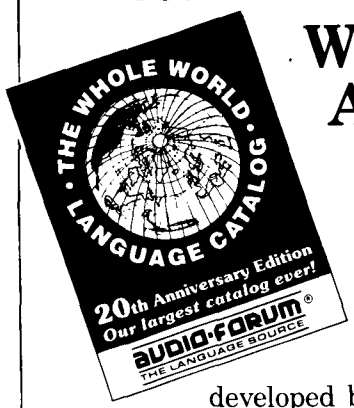

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BRICKBATS

On a bus headed for a Washington, D.C., abortion-rights rally, rocker Cyndi Lauper decided to play tour guide for some of the other celebrity activists. She pointed out the window to a large white building and told passengers it was the White House. "I know it from the postcards," she said. The building, of course, was actually the Capitol.

The District of Columbia Superior Court has upheld the right of the Paralyzed Veterans of America to remove an able-bodied man as its sports director in order to fill that spot with a disabled person. Blake Ortner, the fired sports director, charged that his dismissal violated the D.C. Human Rights Act, which forbids discriminating on the basis of physical handicaps. But Judge Stephen F. Eilperin ruled that the law "only protects those suffering from disability."

Mark Crenshaw is certainly shaking up Florida courtrooms. Three days after being elected to the Jacksonville circuit court, but before actually taking the bench, Crenshaw filed a motion to dismiss a divorce case against an unnamed man. Crenshaw contends that divorce is not allowed by the man's Christian church and therefore violates his First Amendment rights.

Sheryl Greene and Bernhard Scriebel have filed a civil-rights suit against their landlord, alleging that he tried to drive them from the Hollywood, California, apartment they have lived in for the last six years. The couple claims that they were discriminated against because they were straight and married. The landlord, they claim, wanted to turn the building into an all-gay enclave.

Sex-symbol-turned-animal-rights-activist Brigitte Bardot is upset with the city officials of Paris. She says that a new pooper-scooper law that requires owners to clean up after their pets amounts to "aggression" against animals.

Singer and "recovering Catholic" Sinéad O'Connor once refused to appear on television with comedian Andrew "Dice" Clay because she thought much of his material consisted of verbal violence against women. But apparently she's more forgiving of men who commit real violence against women. She told *Rolling Stone* that the woman whom Mike Tyson raped "is a bitch. I don't care if he raped her." She went on to say that the woman "should look at herself and look at the disgrace she's making of women."

One last word from the November elections. Perhaps the most surreal moment of any candidate debate occurred in the Washington congressional race between Rod Chandler and Patty Murray. Responding to an attack by Murray, Chandler recited the entire refrain to Roger Miller's song "Dang Me," including the line "woman don't you weep for me."

Alfred Spremo Jr. has sued a neighbor, a mattress manufacturer, the company that repossessed his car, at least 12 attorneys (including his own), more than 30 state and federal judges, and his own mother. In all he has filed—and lost—at least 51 lawsuits. But now Judge Arthur Lonschein has ruled that Spremo may no longer sue anyone in his home state of New York. Spremo says he will appeal.

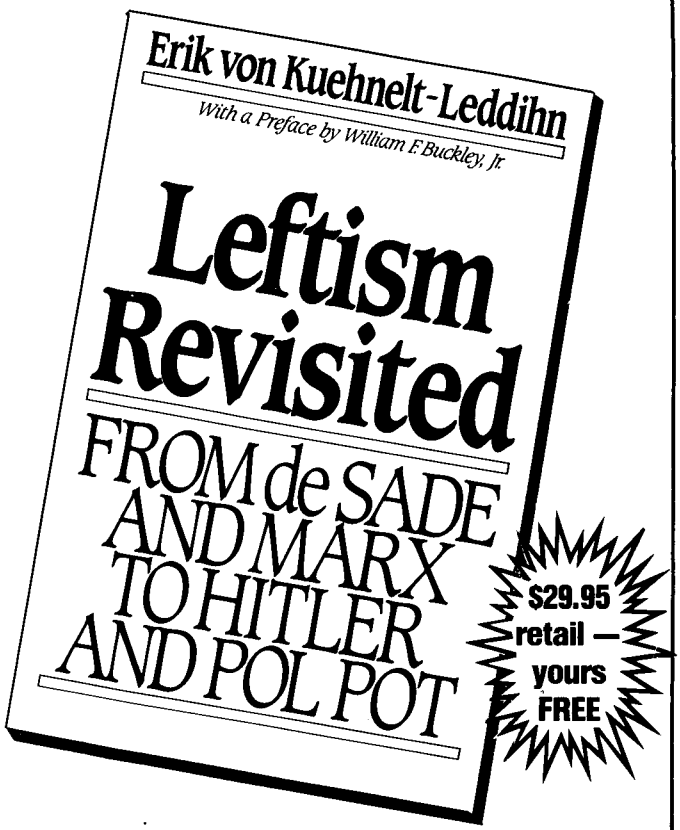
From the making-higher-education-relevant front. Offered without comment are these excerpts from a listing of faculty members and their areas of study and expertise published by the University of Western Ontario: "Karen Harburn (occupational therapy): geriatrics, volunteerism, mime, clowning; Robert Disalle (philosophy): skepticism, atheism and fanaticism, urban bicycle transportation policy; R. Kerry Rowe (engineering): artificial heart valves, mushroom hunting...."

Just when you thought all niche markets have been exploited comes word of a new magazine, *Prison Life*. Aimed at the 1 million persons who now call our state and federal prison systems home, the first issue features cover boy Charles Manson.

—Charles Oliver

Landmark study of liberalism

Where it comes from. The many faces it wears. And why it is still the menace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CAPITALIST RUNNING DUCK

BY TODD SEAVEY

Is the Disney Corp. consciously propagandizing in favor of capitalism? Do stories about Uncle Scrooge McDuck and projects such as the capitalist utopia Epcot Center fit into a broader ideological scheme?

That's the suggestion of a Marxist text called *How to Read Donald Duck*, written by Chileans Ariel Dorfman and Armand Mattelart in 1973. And you know, I think they're right.

Not so many years ago, when I was a college freshman with rather naive, conservative notions about literature who felt (rationally enough) that he was threatened by Soviet ICBMs and Marxist literary critics, I probably would have instinctively rejected such an accusation against Donald and friends. But the Cold War is over, communism is dead, and I can afford to be more charitable and open-minded in my reading of Marxist theory—the stuff almost has nostalgia value now.

Dorfman and Mattelart are at their most insightful when describing the strange familial relations in Disney comics: "[S]ince power in Disney is wielded not by a father, but by an uncle [Donald, Scrooge, Mickey, etc.], it becomes arbitrary....Uncle-authority...not having been conferred by the father (the uncle's brothers and sisters, who must in theory have given birth to the nephews, simply do not exist), is of purely *de facto* origin, rather than a natural right."

Well, that seems like a perfectly sound observation, and many completely capitalistic fans of Donald Duck have probably asked themselves, "Where *are* Huey, Dewey, and Louie's parents?" When such an observation is presented in the context of the Cold War as an indictment of Uncle Sam, however, it suddenly seems like a more threatening revelation—which is exactly how Marxist critics in 1973 wanted it to seem.

I know I would have felt the need to rebut charges of an ideological slant in Disney a few years ago. How troubled I would have been by damning excerpts such as the following lines spoken by bourgeois rodent Mickey Mouse in evaluating his feelings for his dog Pluto: "OK, Pluto, you cost me around fifty dollars in damages this afternoon, but this reward leaves me with a good profit."

Of course, I now realize that capitalist symbolism is nothing to be ashamed of. More importantly, I realize it's a bit foolish to expect Disney products to be artificially devoid of moral biases when Walt Disney was an ardent Goldwater supporter in '64. He also used Mickey Mouse cartoons in post–World War II efforts to re-educate the Germans about democracy and capitalism. And as ABC's *Prime Time Live* pointed out (with worry), the Disney Corp. is a striking example of privatization, having secured permission from the state of Florida to run its own sanitation, irrigation, and security (inspiring *Spy* magazine to suggest turning all U.S. government functions over to Disney.)

So capitalist themes in Disney stories should come as no surprise. I'm now comfortable acknowledging Disney's biases, even ready to defend them. When Donald Duck struggles to get a petition to city hall, then finds out it will take 20 years for the city council to reach a decision, Dorfman and Mattelart see the story as oppressing the proletariat by teaching them that political action is futile. I see a pretty accurate fable about bureaucracy.

I'll admit Disney stories are simplistic. Donald's adventures in Unsteadystan and San Bananador probably don't capture all the subtleties of Third World revolutions. (Or as Dorfman and Mattelart would say: "There is a term which would be like dynamite to Disney, like a scapulary to a vampire, like electricity convulsing a frog: social class.")

Dorfman and Mattelart understandably saw the global distribution of Disney comics in 1973 as part of a pattern of cultural imperialism that included the CIA-backed coup in Chile. Perhaps they shouldn't be blamed for being spooked that the Disney Corp. has "the world's fifth largest submarine fleet." They'd probably be terrified if they knew that shortly before his death Walt secured (but never used) the rights to build a nuclear reactor at the future sight of Disney World.

As for me, I'm happy to see Disney in a new, politicized way. It makes me hope they really did freeze Walt, so those clever Disney scientists can resurrect him as a beloved spokesman for capitalism, his defrosted brain housed in one of the audioanimatronic Founding Fathers from the Hall of Presidents exhibit.

Todd Seavey is a writer in New York City.

TOM DALY

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THE MEDICARE MONSTER

A Cautionary Tale

BY STEVEN HAYWARD AND ERIK PETERSON

It's the year 2035. The scene is Capitol Hill. Thousands of elderly protesters assemble outside the Capitol building. Inside, the House Ways and Means Committee meets to enact huge cuts in both Medicare and the national health-insurance program.

Members are reluctant to take this step, but there's no choice. Although Congress raised the Medicare payroll-tax rate to 15 percent a decade ago, the Medicare program is still woefully insolvent, consuming 40 percent of the $10-trillion federal budget. Because the

total burden of payroll taxes for all social programs has reached 45 percent, the Congressional Budget Office estimates that half of the U.S. economy has gone "underground," like Latin American economies in the 1980s. Another hike in payroll taxes would only drive more of the economy underground. But elderly voters, who now make up a majority of the electorate, have swarmed to Washington demanding "fairness," since they have paid into the system for so many years.

Sound farfetched? The numbers suggest that this scenario could actually come to pass as soon as the next decade, not way off in 2035. The Medicare program is heading for a smashup, yet our political leaders speak only of instituting *new* federal health-insurance programs that would cover everyone.

The rhetoric and specific policy claims being made on behalf of the various universal government health-insurance reforms today are remarkably similar to the promises made on behalf of Medicare a generation ago. Indeed, when Medicare became law, many of both its supporters and opponents predicted that it was the first step toward universal health care provided by the federal government. When Medicare finally passed in 1965, Rep. Phil Burton (D-Calif.) expressed the sentiments of many among its Great Society enthusiasts when he said, "I am equally certain that before many years Congress will choose to extend comprehensive medical care as a matter of right to every man, woman, and child in this country."

So the history of Medicare and the outlook for the program over the next generation provide a sobering lesson for today's would-be designers of national health insurance. Unfortunately, no one seems to be paying attention to what the Medicare experience has to teach.

Today's proposals for a universal national health-care policy typically divide into either a government-run "single-payer" system like Canada's or a "play or pay" scheme that would require employers to provide health insurance for every worker or pay a payroll tax into a government insurance program. Advocates of such policies claim these programs won't cost much because significant savings can be had through cost containment and other efficiencies of scale. The experience of 25 years of Medicare says otherwise.

The two primary lessons of Medicare are the chronic problem of woefully underestimating program costs and the impossibility of genuine cost control. A closer look at Medicare shows why these two problems are certain to plague a government-administered universal health-care plan.

The cost of Medicare is a good place to begin. At its start, in 1966, Medicare cost $3 billion. The House Ways and Means Committee estimated that Medicare would cost only about $12 billion by 1990 (a figure that included an allowance for inflation). This was a supposedly "conservative" estimate. But in 1990 Medicare actually cost $107 billion.

This is a mere bagatelle compared with "conservative" projections for the next generation. The Congressional Budget Office estimates that Medicare will cost $223 billion by 1997. Constance Horner, deputy secretary of Health and Human Services, warns that "by the year 2003, at the current rates, we will be spending more on Medicare than we do on Social Security."

The news gets even worse for the "out years" after that. The Health Care Finance Administration has given up making long-range projections of budget outlays of Medicare. Instead, HCFA makes calculations about the "actuarial balance" of the program—how much of the nation's payroll will be required to pay for the program.

The 1992 annual report of the Federal Hospital Insurance Trust Fund, which pays for the hospital-insurance portion of Medicare, warns that the Medicare program "is severely out of financial balance" and could go bust as soon as the year 2000. The report says expenditures from the hospital fund represented 1.3 percent of the nation's gross domestic product in 1991 and will grow to 4.7 percent by 2065. To cover the cost, the Medicare payroll-tax rate will have to more than quadruple, from the current rate of 2.9 percent to 13.79 percent.

The full narrative of Medicare's enactment in 1965, a classic tale of legislative and interest-group infighting, is too long to recount in detail here. Proposals for Medicare-style programs began surfacing in Congress during World War II but didn't have a serious prospect of passage until the Kennedy administration.

Repeatedly in the early 1960s a coalition of Republicans and conservative Democrats defeated Medicare. The key figure in this perennial drama was Wilbur Mills, the legendary chairman of the House Ways and Means Committee. Mills refused to pass a Medicare bill out of that key committee, supposedly out of concern that Medicare would threaten the integrity of the Social Security program (to which Medicare is attached).

Following the Democratic landslide in the election of 1964, which gave Democrats a 2-to-1 majority in both houses of Congress, President Lyndon Johnson exerted his influence to stack the Ways and Means Committee with new Democrats sympathetic to Medicare. Wilbur Mills changed his mind and embraced Medicare. "Mills can count" was the explanation given for his flip-flop. This new political landscape virtually assured that Medicare would sail through Congress with huge majorities.

When it became apparent after the 1964 election that Medicare's passage was likely to be a slam dunk, the American Medical Association and Republicans scurried to put forward an alternative. The AMA foolishly tried to exploit public confusion over the fact that the Medicare proposal covered only hospital expenses but not costs for doctors, surgeons, dentists, and other outpatient services.

Arguing now that Medicare didn't go far enough, the AMA sought to outflank Medicare with an alternative program that would include outpatient services as well as hospital expenses. "Eldercare," as it was called, provided for a voluntary comprehensive insurance program, administered through the states and financed through means-tested premiums from recipients and federal matching funds. Not to be outdone by the AMA,

House Republicans, under new leader Gerald Ford, offered their own alternative, which was similar to Eldercare except that it would be administered by the federal government.

The crafty Wilbur Mills responded to these alternatives by saying, in essence, thank you very much, we'll just add features from both of these onto the existing bill and create an even bigger program. Mills called the result "a three layer cake." Supplemental Medical Insurance was added to cover costs of doctors and other outpatient services. Finally, Medicaid was created to provide medical care for the non-elderly poor. (The costs of the Medicaid program, which requires state matching funds, now threaten to bankrupt many states.)

The hospital-insurance portion of Medicare was to be supported through a payroll tax shared equally by employers and employees. The voluntary Supplemental Medical Insurance was to be financed by premiums paid by the participants with dollar-for-dollar federal matching funds. The mechanism for increasing revenue for the hospital-insurance plan, when necessary, was the raising of the taxable earnings base.

To keep solvent, the Supplemental Medical Insurance system would adjust the insurance premium until premiums and matching funds covered expenditures. Congress generally dismissed fears of cost overruns. Rep. Claude Pepper (D-Fla.) said: "The cost will not be greater than our present efficient [sic] and wasteful fee-for-service system. According to experts the charge to the average family under a national health-insurance program will actually be less than it pays now, partly because the employer and government will contribute to the fund."

The deliberations about the cost of the hospital-insurance program make for a fascinating and almost comical story. Because it is hard to predict changes in medical technology and hospital costs, it was decided that the program could only be projected out 25 years, instead of the 75-year horizon that is used for Social Security projections. Even with this shorter time horizon, the projections turned out to be wildly inaccurate.

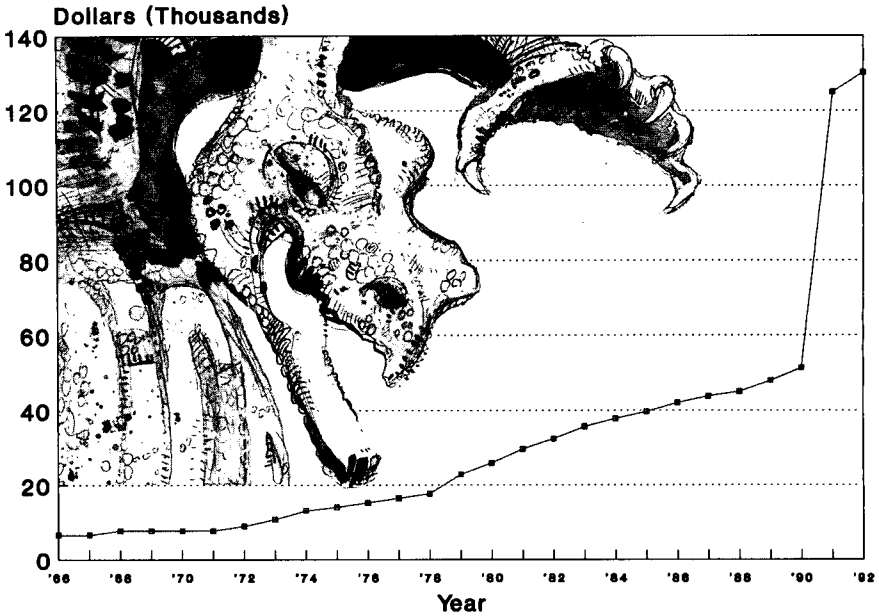
The most serious error the planners made was the assumption that hospital costs wouldn't rise faster than wages. Hospital costs had been rising 2.7 percentage points a year faster than wages over the previous decade. But the House Ways and Means Committee said it was a "reasonable" and "conservative" assumption that the difference between the rates of increase for wages and hospital costs would disappear by 1975, after which wages and hospital costs would rise at the same rate. Obviously, if hospital costs rose faster than wages, there would have to be a sharp increase in either the payroll-tax rate or the wage base against which it was levied.

A 1965 House Ways and Means Committee report on the actuarial basis for the hospital-insurance program proudly declared that "Congress has very carefully considered the cost aspects of the proposed hospital insurance system" and that "Congress very strongly believes that the financing basis of the new hospital insurance program should be developed on a conservative basis." The report acknowledged that hospital costs were rising faster than wages. But it dismissed the alternative scenarios that have turned out to be closer to what has in fact happened.

"It is inconceivable," the committee report says, "that hospital prices would rise indefinitely at a rate faster than earnings because eventually individuals—even currently employed workers, let alone older persons—could not afford to go to a hospital under such cost circumstances....Quite obviously, it is an untenable assumption that there can be a sizable differential between the increase in hospitalization costs and the increase in earnings levels that will continue for a long period into the future." This airtight logic didn't consider the effect of the increased demand that Medicare set off.

Anticipating a 3.5-percent annual inflation rate, government actuaries predicted that the cost of a day's hospital stay by 1985 would be $155 and that the hospital insurance portion of Medicare would cost $9 billion by 1990. The actual average cost of a hospital day by 1985 was over $600; instead of $9 billion, the

Medicare Taxable Wage Base



Under the most optimistic assumption, the Medicare payroll tax will have to nearly double, to 4.38 percent, shortly after the year 2000. Under the pessimistic assumption, it will have to soar to 13.79 percent.

hospital-insurance program cost $63 billion in 1990.

By the time Medicare passed, the cost assumptions had been a subject of controversy for several years, especially with Ways and Means Chairman Mills. In a 1963 Ways and Means hearing, Mills clashed with the Social Security Administration's chief actuary, Robert Myers, about the accuracy of cost estimates made for previous Medicare proposals. Mills pointed out that if any of the previous bills had been passed in the late 1950s or early 1960s, they would already be underfunded. A few excerpts from the transcript tell the story:

"The Chairman: I am concerned about your estimates of the cost of the present [1963] program as I look back to see what happened to your estimates of cost with respect to these other programs....Isn't it a fact that it would be about 100 percent underfunded today if we had enacted it in 1958 and provided exactly the tax then suggested as appropriate...?

"Mr. Myers: Mr. Chairman, I can't answer that question exactly now. [A week later Myers submitted a memorandum to Mills concluding that the program would have been about 50-percent underfunded.]

"The Chairman: What would be the situation had we enacted the so-called Kennedy-Anderson program in 1960 and continued the payroll tax then suggested as being appropriate....I think today you would find it would be about one-third underfinanced.

"Mr. Myers: It is possible that that is right. [Myers's subsequent memorandum confirmed Mills's view on this second bill as well.]

"The Chairman: What do you do with hospital costs? Do they remain constant, or do you contemplate in your estimates an increase in those costs?

"Mr. Myers: The cost estimates really can be looked at in either of two ways.

"Either it is assumed that hospital costs will remain level in the same way that wages do, or that, if they rise, eventually wages will catch up with them....[A]lthough in the past, hospital costs have been rising faster than wages, it seems reasonable to me to assume that over the long run these two elements will move at about the same rate.

"The Chairman: What is there in the program to give us any assurance that hospital costs can be so contained that they will not continue to rise by 3 or 4 percent more rapidly than earnings levels in these future years?

"Mr. Myers: This, as you point out, is matter of judgment."

Mills continued to press Myers on the subject, with a series of questions aimed at preventing Myers from wiggling out of the issue with bureaucratic equivocations. Myers finally had to admit that a doubling of the projected payroll tax rate was possible.

"Mr. Myers: My difficulty [with Mills's scenario] is that if the increase continued indefinitely, hospital costs would pyramid so high that they would be eventually as much as the total of all wages [i.e., the wage base against which the payroll tax would be levied], but let me try to make an assumption that is a little more finite in this respect.

"The Chairman: All right.

"Mr. Myers: Suppose that this situation went on for, let's say, 20 years and then the hospital costs caught up to general wages. Under an assumption like that, I think that what you said is quite correct—that the required combined employer-employee contribution rate would be somewhere around 1 percent of payroll, instead of ½ percent of payroll."

In 1965, Medicare architects declared that the initial tax rate of 1 percent of income after 1967 would be sufficient to fund the program for 25 years with only slight upward adjustments in the taxable income base of $6,600. (Income above that level wasn't taxed.) But it was clear at the outset that the fiscal projections for Medicare were essentially wild guesses, and the subsequent history of the program has shown little improvement in the ability to forecast the cost of the program.

The Medicare hospital-insurance program was already out of actuarial balance and about 50-percent underfunded by the early 1970s, requiring in 1972 the first of several increases in both the payroll tax rate and the wage base against which it was levied. The 1972 amendments to the Social Security Act also expanded what the Medicare program covered, including expensive renal dialysis.

Chastened by the high inflation of the early 1970s, the Social Security Administration developed new actuarial projections that substituted "dynamic" assumptions about wages and costs in place of the "static" assumptions of the 1965 projections. But these projections still expected that hospital costs would soon stop soaring at a faster rate than wages. "Public influence toward reducing the rate of increase in hospital expenditures is assumed in the cost estimates," says a 1973 Ways and Means Committee report. (This was at the time of President Nixon's so-called Economic Stabilization Program, better known as wage and price controls.)

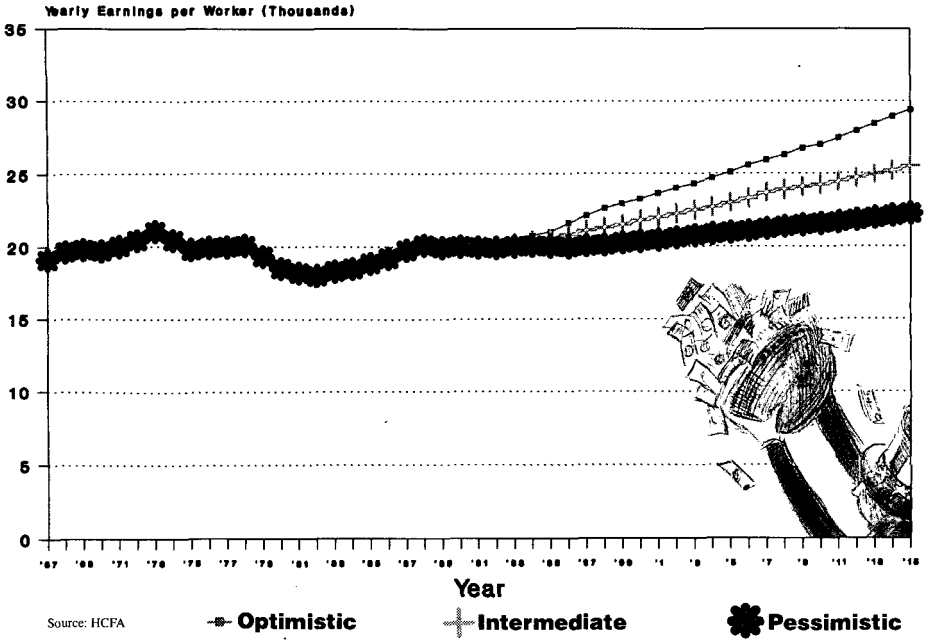
Recent Hospital Insurance Trust Fund annual reports and forecasts for the Medicare hospital-insurance program are more sober but have drawn surprisingly little attention for how alarming they are. Forecasts for the last several years have employed three alternative scenarios for income growth over the next 75 years. Even under the most optimistic assumption, the Medicare payroll tax will have to nearly double, to 4.38 percent, shortly after the year 2000.

Under the pessimistic assumption, the payroll tax will have to soar to 13.79 percent for the program to stay solvent. The increases will come quickly; the tax will have to increase to 5.62 percent by about the year 2000. Under any of the assumptions, the Medicare trust fund will go broke within the next 20 years, possibly as soon as the year 2000.

But even the supposedly pessimistic assumptions behind these projections aren't realistic, and herein lies another small drama. Roland King, the chief actuary of the Health Care Financing Administration (HCFA), has been blowing big holes

Real Earnings

(Historical and HCFA Projected)



Source: HCFA

in the projections. King has to sign off on the "actuarial soundness" of the projections in the annual report each year. Acknowledging the "garbage-in, garbage-out" quality of the projections, King has noted in his statement that the projections assume unprecedented growth in average wages over the next generation.

The projections assume real income growth (pay increases adjusted for inflation) substantially above the trend line of the last 25 years. Calling this "unjustified optimism," King notes that even the "pessimistic" projection assumes that real income will grow at an *annual* rate that is faster than the *cumulative* rate for the last 25 years.

King concludes in a memorandum he circulates with copies of the Medicare annual report: "Indeed, the assumptions are so optimistic that even the pessimistic assumptions project real earnings increases during the next quarter century, and each quarter century thereafter, will be many times the increases of the last quarter century....The Trustees' assumption that real earnings growth rates will suddenly accelerate to levels that substantially exceed the real earnings growth rates of the last quarter century must be viewed as unreasonable." King believes that the actual actuarial deficit will be 60-percent higher than even the pessimistic forecast.

The Hospital Insurance Fund trustees have had a prickly reaction to King's observations. In last year's annual report, the trustees offered this grumpy dismissal: "We believe that the comments on real-wage gains by the HCFA Chief Actuary also represent an expression of a preference outside the bounds of the legally required actuarial opinion." In an appendix of the latest annual report, the trustees take aim at King again, but without offering any substantive refutation of his arguments: "It is perplexing and disconcerting that an actuarial opinion with unjustifiable qualifications has been allowed to be repeated for several years in the HI reports." In other words, shut up.

Nobody in Congress is paying much attention to this looming fiscal catastrophe. An HCFA official told REASON, "People keep thinking that if we just push back little by little the date of the trust fund's insolvency, we'll be all right." Congressional liberals thought it would make a big difference to more than double the taxable wage base—from $51,300 to $125,000—as a part of the 1990 budget deal with President Bush, but, as the HCFA official told us, "Some politicians were surprised to find that this will only push back the date of the trust fund's bankruptcy by about two years."

The other half of the Medicare program, Part B Supplemental Medical Insurance, is a similar tale of unexpected soaring costs. Its funding was, in theory, established on a more stable base than the hospital-insurance program. The supplemental program was to draw 50 percent of its revenue from insurance premiums paid by beneficiaries and 50 percent from federal matching funds from the general treasury. As program costs grew, however, adjustments were to be made in the monthly insurance premiums (which started out at $3.00 a month in 1966; today's Medicare part B premium is $31.80 per month) to keep the 50-50 ratio.

This plan ran into trouble by the early 1970s, again because the cost of medical care rose faster than income. Elderly enrollees, many of whom lived on fixed incomes, were paying an increasing share of their income for supplemental-insurance premiums. In the 1972 amendments, Congress stipulated that these premiums could rise no faster than Social Security benefits, regardless of program costs. Since 1972, the supplemental program has required ever larger subsidies from the general fund. The result: The Treasury now coughs up $3.00 for every $1.00 paid in premiums. In typical Orwellian doublespeak, Congress continues to describe the program as "self-supporting."

It seems never to have occurred to anyone during the debates about Medicare that increasing the demand for health services would generate huge pressures on hospital costs. The planners seem to have overlooked the fact

The history of Medicare's hospital insurance suggests that any "pay or play" health-care system will be massively underfunded and will increase the federal deficit.

that if you shift the demand curve sharply outward without moving the supply curve, prices will go up. The original 1965 cost projections allowed for a 10-percent increase in hospital-admission rates among the elderly, but in fact hospital-admission rates among the Medicare-eligible rose immediately by 25 percent, the rates for surgical procedure by 40 percent, and the number of hospital days by 50 percent.

The federal government has approached the problem of cost containment gingerly, not wanting in the early years to jeopardize the political support for Medicare within the health-care industry with stringent reimbursement policies or among the elderly by restricting benefits. But with the cost of the Medicare program growing at more than 15 percent a year (in 1975 Medicare outlays jumped a whopping 30 percent), reality has forced the government to try to impose cost containment. The parade of imaginary horrors the AMA predicted in 1965—such as price fixing for specific procedures and limits on doctors' fees—is finally coming to pass.

The results of cost containment, like the history of the fiscal projections for Medicare, have generally been disappointing and provide another sobering precedent for designers of universal national health insurance. In the 1970s, the federal government adopted the "Certificate of Need" program, which required states to review and approve capital investments of health-care providers. While correctly recognizing that Medicare and other government health programs provided perverse incentives for hospitals to increase their overhead by buying new capital equipment, the Certificate of Need program was a crude attempt at government rationing. Even the Congressional Budget Office, in a recent report, concludes that the program turned the capital equipment procurement process into a political process, dependent more on influence and political clout rather than on actual medical need.

A more serious strategy was adopted by the Reagan administration in the mid-1980s: the Prospective Payment System, which reimburses hospitals according to a fixed-price structure based on Diagnostic Related Groups. For example, if the average gall-bladder surgery costs $10,000 and requires four days of hospitalization, that is what the government will pay the hospital for a Medicare patient, regardless of how long that particular patient may need to stay. During the aggressive implementation of this policy in the mid-1980s, the cost of Medicare's hospital-insurance program grew at single-digit rates for the first and only time in its history.

The attempt to contain costs of Medicare's supplemental-insurance program by freezing physician fees from 1984 to 1986 was less successful. That program cost continued to rise by more than 10 percent a year. A Congressional Budget Office review of the fee freeze and other attempts to fix prices notes that doctors adapt simply by increasing volume. A 1991 CBO study concludes: "Studies of the effects of fee freezes or controls on physicians' prices indicate that they result in a pronounced volume offset." The same inherent weakness diminishes the long-term prospects that the PPS/DRG system can reduce the rate of health-care cost inflation.

Hospitals have adapted to the system by qualifying patients for more tests and procedures, by shifting patients to different DRG designations that carry a higher reimbursement rate, and especially by shifting patients from hospital to outpatient settings, which shifts the cost to the supplemental-insurance program. An HCFA official told us: "There is simply no way to contain costs, and nothing on the horizon to contain costs."

The lesson of both PPS and the physician-fee cap is that government efforts to control health costs through price fixing are like trying to press the bumps out of a tube of toothpaste. Press in one area, and the tube bulges in another. To smooth out all the bumps by force, you have to apply pressure to all areas of the tube. The cost-containment logic of fixing prices for government health programs is leading inexorably to government price fixing for the entire health-care system. It is already happening in two ways.

First, private health insurers, wary of having costs shifted onto them, are adopting the Medicare PPS rates as their own reimbursement policy. "Over time," says Anthony Masso, director of managed care for the Health Insurance Association of America, "you will probably see [the Medicare reimbursement rates] being used by almost all private-sector insurance carriers."

Second, the latest attempt at Medicare cost containment is an even more ambitious price-fixing scheme that not only restricts the amount the government will pay for hospital procedures but even sets fees individual practitioners should receive in hospital and clinical settings. In the best socialist style of centralized decision making and price fixing, HCFA has commissioned a multimillion-dollar study to develop a ranking of the "relative value" of medical procedures on which to base the new reimbursement rates.

Having learned from the failure of the fee freeze in the mid-1980s, the government is attempting to head off the possibility of increased volume by reducing physician-reimbursement rates by as much as 30 percent in some cases. But instead of increasing volume, this time doctors and clinics are cutting back on their Medicare practices. A 1990 survey by the Association of American Physicians and Surgeons found that nearly 50 percent of physicians would respond to a cut in Medicare fees by seeing fewer Medicare patients.

"Private doctors," said Dr. Jane Orient, a past president of AAPS, "if they remain in business at all, will probably be cutting back on their Medicare practice, or dropping it altogether."

Under a universal "all payer" health-insurance policy, the Medicare price-fixing policy would be applied to the entire health-care system. The fears the AMA expressed at the time of Medicare's enactment 25 years ago that it would lead to socialized medicine seem fated to be realized.

As the nation barrels toward some kind of universal health-care policy, there is an ominous political parallel shaping up between 1965 and 1993. What finally tipped the balance in

favor of Medicare in 1965 was the huge turnover in Congress. The next Congress will have more than 100 new House members. Despite some losses, the Democrats will have a solid majority, and even some Republican congressional candidates adopted as boilerplate the slogan that the federal government must take a role in providing some kind of universal health coverage. Bill Clinton has vowed to make health care a top priority, and Congress isn't likely to hesitate much over the legacy of Medicare.

In light of the alarming actuarial projections for Medicare's hospital-insurance program, it is no wonder that politicians are loathe to propose a national health plan that explicitly includes a new payroll tax. But the halfway house of "play or pay" that Democrats are advocating will quickly fall into the same trap as Medicare.

First, Medicare is simply one example of the fact that, as an HCFA official put it, the federal government "continually underestimates the cost of social insurance programs." This problem would be compounded under a "play or pay" scheme because the alternative payroll tax would initially be set low to entice participation.

As a consequence, the government would end up with a disproportionate share of high-cost enrollees (similar to what has happened with the state-run "assigned risk" pools for auto insurance) because companies with high health-insurance costs would find it to their cost advantage to dump the burden onto the government program. Thus, the "pay" portion of the government program would certainly be underfunded. "It is guaranteed to increase the federal deficit," says a source at the HCFA. "It is impossible to set a payroll tax that will cover the cost."

A recent study by the Urban Institute found that if the payroll-tax rate of a "play or pay" policy were set at 7 percent, 112 million nonelderly people, or 52 percent of the insured population, would be covered through the "pay" option. This number includes 59 percent of all private-sector workers. If the rate is 9 percent, an estimated 84.8 million would still be enrolled in the public plan, or 39 percent of the nonelderly insured population. These numbers suggest it will be a massive, and massively underfunded, program.

Providing significant funding through cost containment is equally chimerical, unless the government is prepared to administer an onerous "all-payer" regime of price controls on the entire health-care system, and then employ a rigorous scheme of rationing on top of that. Although a few liberals speak openly of price controls and "all-payer" regulations, they are loathe to entertain the necessity of rationing because of the inequities it would generate.

There is one decided difference between the politics of Medicare in 1965 and today. In 1965, all the opponents of Medicare had to offer was a watered-down version of that program, Medicare on the cheap. Today, opponents of increased federal involvement in health care have a true market-based alternative to offer. The combination of "Medi-save accounts," in which people would be encouraged to save their own money for health insurance and direct payment of medical expenses, and tax credits to enable low-income families to purchase health insurance, offer a viable alternative to centralized, big-government health insurance.

Although this isn't the magic answer to soaring health-care costs, it is a policy that rests on the one proven strategy for holding costs down: making the individual responsible for first-dollar costs of health care. If the critics can portray the issue as big government versus individual empowerment, there just might be a chance for positive reform of the health-care mess.

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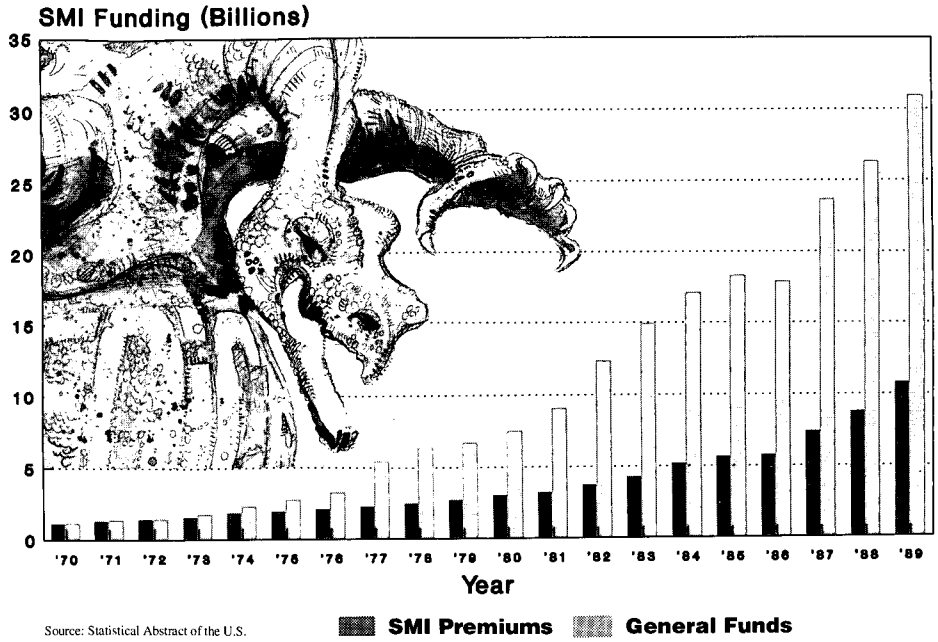
Supplemental Medical Insurance Funding

Premiums vs. General Funds



Source: Statistical Abstract of the U.S.

In 1965, government actuaries predicted that the hospital-insurance portion of Medicare would cost $9 billion by 1990. The actual cost of the hospital-insurance program turned out to be $63 billion.

REAPING THE WHIRLWIND

HURRICANE ANDREW WAS A GODSEND FOR POLITICIANS. THE LAST THING THEY WANT IS A PREMATURE RECOVERY.

By Glenn Garvin

AP/WIDE WORLD PHOTOS

First Hurricane Andrew was terrifying, rattling my windows with Druidic shrieks, shaking my doors with a lunatic fury. Then it was depressing, leaving behind a once-lovely neighborhood awash in shattered trees and twisted debris. Then it was tedious, trapping me in a blockaded house without electricity or water. And finally it was surreal. We reached that moment a week after the storm, when George Bush peered out of the grainy black-and-white screen of my tiny, battery-operated television and blithely promised to spend $480 million to raise Homestead Air Force Base from the rubble in which Andrew had entombed it, reanimating it like some Cold War zombie to stare vacantly at a Soviet threat that has ceased to exist.

Bush's pledge to rebuild Homestead—just one chunk of pork, albeit a meaty one, in an unprecedented $8-billion aid package—was the most grotesque act of political pandering I saw in the weeks after the hurricane, but it was hardly the first. Within minutes of Andrew's final howl, the screen of my television overflowed with the bovine faces of politicians taking credit and assigning blame, promising and demanding swag. The particulars varied, but there were a few constant themes: Someone else should have predicted the hurricane earlier, prepared for it better, provided more aid for its victims.

Politicization of disasters is nothing new, of course. In a culture in which politics has largely been reduced to an endless parade of pressure groups proclaiming their own victimization and demanding succor, the casualties of natural catastrophes—whose suffering is both authentic and obvious—are the most difficult to refuse. In 1972 Richard Nixon dispatched his housing secretary, George Romney, to Wilkes-Barre, Pennsylvania, to investigate the havoc wreaked by Hurricane Agnes. At the conclusion of his visit, as Romney held a press conference, a 63-year-old grandmother rose in front of the TV cameras. "I believe you don't give a damn whether we live or die!" she screamed at the befuddled Romney. Days later, $2 billion in federal largess began cascading into Pennsylvania.

In 1972 Nixon faced re-election, just as Bush did in 1992. But there are other factors that have intensified the politicization of aid for the victims of Hurricane Andrew and hurled it light-years beyond the ordinary dimensions of pork-barreling into a new realm from which we may never emerge. For one thing, Nixon was barely breaking a sweat in his race against the hapless George McGovern. Bush, by contrast, was trailing Bill Clinton in the polls, in large part because voters perceived him as a president who cared more about foreign affairs than domestic problems. Then there are the personality differences: Bush can't stand to have anyone angry with him; whatever other criticisms can be made of Richard Nixon, that wasn't one of his problems.

Perhaps Bush's peculiar vulnerabilities wouldn't have mattered so much if Hurricane Andrew had come ashore somewhere else. But Miami is a high-profile city, a powerful media center populated by politicians well schooled in the manipulation of those media. In the days after Andrew, the politicians and the media entered into an extraordinarily symbiotic relationship, using one another to goad Bush into handing over the keys to the cash register. Local officials had virtually an open microphone for unchallenged tirades about the federal government's failure to deliver. Television anchors openly heckled news clips of the president discussing hurricane damage; one radio station repeatedly broadcast the White House phone number and urged its listeners to "give the president a call." Announced one *Miami Herald* banner headline, two inches high: WE NEED HELP.

It was a truly inspired bit of theater that finally cornered Bush. On August 27, three days after the hurricane, Kate Hale, the head of Dade County's Emergency Management Office, called a press conference. "I want this live!" she snapped at the waiting television crews as she marched into the briefing room. The TV crews obediently began feeding their signals, and Hale climbed onto a chair and launched a scathing attack on the White House. "Enough is enough!" she shouted. "Quit playing like a bunch of kids!" As the cameras pulled in tight for a close-up, tears conveniently welled in her eyes. "Where in the hell is the cavalry?" she demanded. "For God's sakes, where are they? We're going to have more casualties because we're going to have more people dehydrated. People without water. People without food. Babies without formula....I am not the disaster czar down here. President Bush was down here. I'd like him to follow up on the commitments he made."

Not only had Florida officials not asked for troops, they had specifically said they didn't want any.

Predictably, Hale's performance won rave reviews in the Miami news media. *The Miami Herald* said it was a "moving plea for aid, desperate but determined" and called Hale "a hero to many." Certainly she was effective: Within an hour, Bush promised to send in the U.S. Army.

But there was much that Hale didn't mention during her tearful soliloquy. First and foremost was the reason that the U.S. Army wasn't on the scene: No one in Florida had asked for it. American presidents, with good reason, do not treat local jurisdictions like conquered territories, subject to military occupation at the whim of the White House. Even in civil disturbances, where the military's primary skill—shooting people—is far more relevant than it is in a natural catastrophe, it's rare to see federal troops.

Not only had Florida officials not asked for troops, they had specifically said they didn't want any. The Florida National Guard's hurricane log shows that on August 25, a Guard officer briefing a U.S. Army counterpart told him: "Florida has not requested any support from other states or federal agencies, nor do we project a need."

Then there was the matter of those people without water, people without food. They existed, no doubt about that. But whether they numbered in the hundreds, or the thousands, or the tens of thousands, no one knew—certainly not Kate Hale. According to reports in several newspapers, her office never bothered to conduct a post-hurricane damage assessment, so Dade County had no idea how many people were without food, water, electricity, or housing.

And if the county *had* known, it probably wouldn't have made much difference. It seems that, in the five years she's headed it, Hale's $612,000-a-year disaster planning office never got around to any actual disaster planning. According to *The Miami Herald*, the office had only a single copy of a proposed draft of a recovery plan, stowed away somewhere in a cardboard box.

Now, foreseeing the possibility that the Miami area might be hit by a hurricane does not require Jeanne-Dixon–like perceptual powers. Hurricanes have struck Florida 57 times this century, 32 of them in the state's southeastern tip. In some years it's happened as many as three times. Three of the four strongest hurricanes to come ashore in the United States this century passed through South Florida.

Given our history, it's difficult to see why local authorities shouldn't have been able to plan for the aftermath of a hurricane—and to do so without any guidance from the federal government. In fact, if anything, the feds ought to be coming to us for help; we have more experience with hurricanes than they do.

But the first-strike whining of Florida officials in the hours after Hurricane Andrew destroyed this line of reasoning before it ever got off the launching pad. Newspapers running the gamut from *The New York Times* to *USA Today* decried "the inadequacy of federal readiness." Sen. Barbara Mikulski (D-Md.) said hurricane victims had been "devastated twice, once by the natural fury of Hurricane Andrew, the second time...at the hand of their own government," as though George Bush and his evil henchmen had been throwing their bodies in front of relief trains bound for Miami.

The common thread running through most of these attacks was that the United States needs a high-powered disaster-planning agency—despite the fact that most of these same critics have nothing but scorn for the Federal Emergency Management Agency (FEMA), the office that currently coordinates Washington's response to catastrophes. If FEMA, with a $750-million-a-year budget, can't get it right, then who can?

The popular answer to that seems to be the Pentagon. "The military—with its speed and discipline—is uniquely able to augment disaster response efforts," argues Sen. Bob Graham (D-Fla.), one of the most enthusiastic boosters of a Salvation Army that really has tanks.

There are certainly aspects of disaster relief—notably the need to clear terrain and establish quick logistical lines—for which the U.S. military is admirably suited. But its capabilities on the ground come at a hideous expense. Military bureaucracy, if anything, is even more costly and complex than its civilian counterpart. The Pentagon's 1992 budget was $313 billion, which consumed nearly 60 percent of discretionary federal spending. I, for one, was hoping to see a good portion of that turned back to taxpayers now that the Cold War is over.

But if the U.S. military is converted into a giant 911 rescue squad, not only will the Pentagon's budget fail to shrink, it may well grow. Imagine the endless intricacies involved in planning for the collapse of Boulder Dam, the meltdown of the Turkey Point nuclear reactor, an earthquake leveling Los Angeles, a typhoon striking Honolulu, a tidal wave hitting Houston. And it won't end there. Once you have a bureaucracy whose entire job is to envision catastrophes, its Cassandras won't stop at the mundane. What if a giant meteor squashed Phoenix? What if a gas leak permeated the New York sewer system and then exploded and the entire city caught fire? What if bubonic plague spread through the bats at Carlsbad Caverns, and then one night a freak wind carried them into El Paso? Of course, once all of these calamities are imagined, the disaster planners must be sure that they have the capacity to respond to each and every one.

This is the reason disaster planning is left to local authorities, who can best envision the kinds of misfortune that are likely to visit their communities and can best prepare for the likely results. To make one agency responsible for every conceivable cataclysm that might happen anywhere in America is to invite prodigious expense, followed closely by breath-taking sloth and then total paralysis.

To get an idea of the way a federal disaster nanny would throw around money, take a look at the way the demands for federal funds pyramided in the weeks after Andrew. First Bush pledged that the federal government would pay 100 percent of the emergency cleanup costs in South Florida instead of the customary 75 percent. Then, as squawks arose from Louisiana (hit by the dying throes of Hurricane Andrew a few days after it came through Miami) and Hawaii (struck a couple of weeks later by Hurricane Iniki), the president promised to pay 100 percent of *their* costs, too—even though the destruction in Louisiana and Hawaii was nowhere near that in Florida. The sound of dollar bills fluttering in the wind awakened South Carolina Sen. Fritz Hollings (D), who demanded that Bush retroactively agree to pay 100 percent of the tab for 1989's Hurricane Hugo. No sooner said than done.

By the time Bush and Congress had worn themselves out from stuffing extra goodies into the hurricane aid package, it was $8 billion for Florida alone. The only part that met any resistance was Bush's proposal to rebuild Homestead Air Force Base, which was nearly closed last year as part of a general military cutback and was expected to be on the next list of bases to shut down. Opposition to the reconstruction of Homestead, however, represented not a heroic burst of political courage but rather an act of shared venality: Several congressmen suddenly sensed the opportunity to save hitherto-doomed bases in their own districts. Closing Homestead meant one less base would have to bite the dust elsewhere.

Virtually every other boondoggle that was suggested was accepted. Special hurricane counseling for the deaf? Sure. Emergency grants to hire performance artists to dress up like Santa Claus? Why not? After all, as one aide to the House

Appropriations Committee noted in a widely reprinted quote, "Simply put, our job is to start shoveling bucks south." Some politicians were positively unhinged by an opportunity to spend money for a cause that was utterly beyond criticism. My favorite was Louisiana Sen. Bennett Johnston (D), who breezily dismissed questions about who would pick up the tab. "It will be paid for out of the deficit," Johnston explained. "The deficit is big enough to encompass this too." All I can say to that is that we here in Miami thank God for prescient public servants like Johnston who were prudent enough to squirrel away a nice large deficit for use on a rainy day.

With so much federal cash flooding into South Florida, naturally everyone felt entitled to their fair share. There was a predictable rash of con men posing as homeless people or faking hurricane damage. (Though no Floridian was so imaginative as the South Carolina woman who in 1989 applied for a FEMA grant on the ground that Hurricane Hugo made her pregnant.)

Private citizens who exhibited excess enthusiasm in pursuit of a few hundred dollars in relief funds were jailed. Regrettably, no such remedy was available for local officials who observed the proper bureaucratic niceties in committing their far more egregious acts of thievery. The city of Oakland Park, located a good 40 miles north of where the hurricane came ashore, suffered nothing more than a few broken tree limbs. Yet the city billed FEMA for nearly $160,000 in overtime wages—much of it to salaried officials like the city manager and the police chief who had never before qualified for overtime.

Then there are the city fathers of Coral Gables, where I live. Upon learning that FEMA pays for storm-related landscaping damage, Coral Gables promptly submitted a bill for 7,000 new trees. The surrounding city of Miami, with 633 miles of streets, most of them landscaped, may actually turn a profit on the hurricane.

The city officials caught red-handed in these scams haven't displayed the faintest sign of embarrassment or offered even the vague semblance of an apology. The conventional wisdom among politicians is that local folks applaud all attempts to fleece the federal government; getting caught just shows that you were doing your job, trying to bring home the bacon.

Perhaps that's so most of the time. But I suspect there's something about a disaster that alters perceptions, at least temporarily. There is an elusive but palpable sense in Miami that our leaders, no matter how much money they brought showering into town, failed us. Public opinion polls taken in the hurricane zone show that storm victims had a higher opinion of everyone else—the military, the Red Cross, their insurance adjusters, even the benighted FEMA—than they did of state government. Fiery denunciations of the federal relief effort no longer get much ink. Kate Hale, whose convenient televised breakdown induced *The Miami Herald* to label her a hero, has quietly lowered her profile locally to the point of invisibility. (Perhaps this is because Hale has taken her act on the road. She turned up a few weeks ago on a nationally televised talk show, where she beamed as the hostess greeted her as Miami's own Mother Teresa. Better that Hale had remained in Miami to hunt under the desks for that recovery plan.)

Some of the reasons for the popular discontent are probably unfair. There are undoubtedly some citizens who blame local officials for the hurricane itself, or at least for the lingering pain it left behind. A discomfiting number of Americans seem to feel that they ought to have constitutional immunity from the forces of nature—that for every injury there is a guilty party who must be punished. One unfortunate consequence of the public tantrum of local officials in the wake of the hurricane was that it encouraged this belief that Andrew was *somebody's fault.*

Homestead residents salvage everything they could.

Thanks to federal largess, the city of Miami may turn a profit on the hurricane.

But there are other, more compelling reasons for Miamians to feel anger with local authorities. Right at the top of the list is that they demeaned us in front of the world. They painted us as people who, confronted by adversity, were unwilling or unable to help ourselves. They made us sound, by turns, stupid and callous and pathetic.

The worst of it is that the hurricane showed us just the opposite about ourselves. Miami, like any other large American city, can be a tough place, full of urban alienation, ethnic tension, and criminal violence. Columnist Dave Barry once wrote that when he first moved to Miami, neighbors kept leaning over his back fence and greeting him: "*Hola! Mucho gusto a conocerle! No voy a matarle!*" ("Hi! Nice to meet you! I'm not going to kill you!")

But as Hurricane Andrew retreated into the Everglades, Miami—without the help of human-resources counselors,

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urban development grants, or racially balanced neighborhood advisory boards—became a community. It started in my neighborhood within the first hours after Andrew passed. Virtually every block for two miles in every direction was littered with uprooted trees, making vehicular travel impossible. Before the hurricane, the trees would have lain there until City Hall sent someone to move them. Instead, a small army of neighbors swarmed through the streets armed with mini-chainsaws, hacking the trees up and stacking them alongside the roads. By sundown all the streets in the neighborhood were passable.

That was just the beginning. Soon neighbors who had never met were sharing their caches of food, water, and batteries. On some blocks, where the storm perversely knocked out power on one side of the street while leaving it working on the other side, long extension cords snaked across roads, connecting haves to have-nots. In some neighborhoods, it was easy to pick out the homes that still had functioning telephones from the lines of neighbors waiting outside for their turn.

These things weren't accomplished through orders delivered by George Bush or Kate Hale or a National Guard commander. In fact, they weren't accomplished *consciously* at all. People helped one another spontaneously because if they didn't, no one else would. All they had was one another. Soon, they began taking pride in their can-do spirit and ingenuity.

Bureaucrats, however, recoil from spontaneity like vampires from a cross. Their attempts to regain control were alternately hilarious and maddening.

The day after the hurricane, as I ventured out in search of flashlight batteries, I was delighted to see that the malfunctioning traffic lights on Southwest 8th Street, a major east-west thoroughfare, had been replaced by a volunteer army of amateur traffic cops who directed vehicles with both efficiency and élan. Sure enough, by the next morning, newscasters were reading stern warnings that nobody was allowed to direct traffic without first attending a county traffic-directing class.

Private acts of charity were so numerous in the first days after the storm that help seemed to come from all directions. Within 48 hours of the hurricane's end, the southbound lanes of Interstate 95 were clogged with private relief convoys from Georgia, South Carolina, Louisiana, and all points in Florida. Soon after, aid arrived from Oregon, Idaho, Wyoming, Nebraska, Missouri, and Canada.

Still, the most impressive outpouring was right here at home. Literally thousands of citizens just north of Miami in Broward and Palm Beach counties, mostly unscathed by the hurricane, simply loaded up their cars with anything that would help—food, water, ice, batteries, lanterns—and drove south looking for people who needed help. Local radio stations broadcast nearly nonstop offers of help and news of collection points for donations.

Admittedly, the generosity of contributors sometimes exceeded the size of their brainpans. One disk jockey plaintively asked listeners to stop donating so many Ouija boards.

The vast majority of the aid, however, was on target. Over and over again, I was awed by the concealed depth of Miami's compassion. Some of the stories that week simply defied words. One afternoon a television station interviewed a bedraggled Homestead woman whose house had been leveled by the storm. She couldn't stop to think about that now, the woman said; she was too busy trying to scavenge food for her family. With a sad smile, she added that she'd expected to spend the day differently—it was her daughter's sixth birthday. Within three hours, the little girl had eight birthday cakes.

Hearing that kind of story made me feel good about my city and my neighbors. Local officials, however, had a different reaction: They felt threatened any time citizens acted on their own, without adult supervision. Unbelievably, they began broadcasting appeals for everyone to stay away from the hurricane zone; disorganization, rather than hunger or thirst or illness or misery, became Public Enemy No. 1. Better that the battered residents of Florida City swelter in 95-degree heat without ice than suffer the indignity of *disorganized* ice.

The blunt fact was that the enormity of Andrew's destruction overwhelmed organized relief efforts—including not only those mounted by local government but also the Red Cross and even the military—for weeks. The free-lance efforts of individual citizens helped cover the gaps. In several cases, private relief convoys blundered into entire towns in remote areas of southern Dade County that had been completely overlooked by everyone else.

But eventually the propaganda bombardment from local officials took its toll. If we weren't needed—if our efforts to help were just a pain in the ass that made things worse—then why bother? Anyway, that's what the Army is there for; let the Pentagon take care of it. By early October, I was able to drive the 20 miles to Homestead without seeing a single private relief vehicle on the road.

Meanwhile, the thirst of local governments to dominate the relief effort has not been slaked. When the business community formed We Will Rebuild, an umbrella organization for donations to the recovery effort, local officials clamored for seats in its inner council. They got them—and, not surprisingly, though We Will Rebuild had raised $17.5 million by early October, the only money it had spent was on its administrator's $150,000-a-year salary. Instead of trying to solve immediate needs—temporary housing and the like—the group was bogged down in endless debates about land banks for the homeless and other long-term social-engineering problems.

Social engineering, in fact, may be just about the only growth industry in South Florida right now. Local planners can barely conceal their glee that Andrew's winds blew away so many of their most troublesome obstacles—that is, people, whose nettlesome presence constantly upsets the technocratic equilibrium. Scarcely a day goes by without a column in *The Miami Herald* insisting that this time local officials will see to it that Dade County is rebuilt "right."

The first attempts to get it "right" are already under way: There's a widespread effort to ban mobile homes on the grounds that they're unsafe. "That seems like a lot of bull to me," says Myrna Stampler, a secretary who lives in a mobile home in unincorporated Dade County. "Sure, a lot of mobile

homes blew away during the hurricane. But so did a bunch of entire subdivisions of $100,000 homes. Are they going to ban $100,000 homes? It sounds to me like a lot of these guys just want to use safety as an excuse to decide what kind of people can live in their towns."

Even uglier than the social-engineering schemes—which ultimately, I suspect, will be no match for the malicious intelligence and hardscrabble obstinacy of their intended targets—is the way local governments have joined with the construction industry to prevent timely and affordable rebuilding. Much of Dade County is in ruins. About 135,000 dwellings were damaged by the hurricane, perhaps 28,000 completely destroyed. About 82,000 businesses were damaged or destroyed. It would take local contractors a decade or more to do all the work. Even the simplest tasks, such as getting a window pane replaced, require going on waiting lists of at least two months.

With so much work waiting to be done, and plenty of money from insurance companies and the federal government available to finance it, hundreds of out-of-town companies have come to Miami to help. It's a classic case of market forces at work—or it would be, if local governments and contractors hadn't entered into a cabal to thwart them. As Charles Lennon, executive director of the South Florida Builder's Association, observed: "We don't need 6,000 unemployed carpenters from Massachusetts clogging up Interstate 95 looking for a job." To see that they won't be, Dade County officials within days of the hurricane ruled that out-of-county contractors can't do any work until they pass a temporary licensing test. And that test will be given...sometime. In early October, county officials still hadn't gotten around to scheduling the first exam.

Volunteers immediately began digging homes out from the rubble.

Local officials demeaned Miamians. They made us sound stupid, callous, and pathetic.

It needn't have been this way. Miami didn't have to go down the path of entitlements and protectionism and lining up at the trough. McClellanville didn't.

You've probably never heard of McClellanville, and that's part of the explanation for why its path diverges from that of Miami. McClellanville is a flinty little fishing village of 450 or so souls, located in the middle of nowhere about 35 miles north of Charleston, South Carolina. Most people can't even find McClellanville on a map, but Hurricane Hugo had no trouble locating it in 1989. The town was battered by 138-mile-an-hour winds and a 20-foot storm surge. In short, it was the Homestead of Hurricane Hugo.

Except McClellanville didn't have a big Knight-Ridder newspaper or high-powered network-owned television stations to proclaim its status as a victim. It didn't have any sleek politicians to pound on doors in Washington. McClellanville didn't really have *anything*. "I think I heard the governor say once that the state would rebuild the docks, which is a pretty big deal in a fishing village," recalls Debbie Thames, who with her husband owns the local hardware store. "But every dock I know of that got rebuilt, it was done by the guy who owns it."

In McClellanville, it never occurred to anyone that the federal government would come rebuild their town. Instead, the citizens got to work a few hours after the hurricane. They dug their own homes out of the mud and the slime that Hugo left behind; then they went next door and dug their neighbors out. They went on that way for months. There was help from outside, of course, especially from private charities, and nobody in McClellanville felt shy about taking it. But no one counted on it, either.

Three years later, most of the scars left by Hugo have disappeared. Folks hardly even talk about it anymore—or didn't, until Andrew. Since then they've been watching the news stories out of Miami with interest. Once in a while, a reporter calls to ask if the people of McClellanville have any advice for the people of Miami. They always choose their words painstakingly.

"I don't want to insult your community," Thames says carefully. "But I think that, in certain respects, you're going about things wrong down there. This thing is an act of God—there isn't anyone responsible for it. It's done, and you just have to put it behind you and get on with it. There's always a lot of political hype after a disaster. But when it comes down to clearing away the rubble and debris and getting started on the rebuilding, you'd better do it yourself." ◻

Glenn Garvin, a former editor of Inquiry *magazine, is author of* Everybody Had His Own Gringo: The CIA and the Contras *(Brassey's).*

AP/WIDE WORLD PHOTOS

NO PAIN,

When Hollywood's Border Grill closed in July, it didn't make big news. Los Angeles had lost one of its best nouvelle Mexican restaurants, and 20 people had lost their jobs. But those things happen all the time.

That's precisely why people should have paid attention. Like many large and small businesses across the nation, the Border Grill was forced to close largely because of soaring worker's compensation insurance costs.

"We seat 35 people in the restaurant," owner Barbara McReynolds told a *Los Angeles Times* food columnist. "Now our insurance company wants us to pay $40,000-a-year for worker's comp. And that was before [state Insurance Commissioner John] Garamendi approved that rate hike."

All across the nation, businesses are closing, laying off workers, or forgoing expansion because of soaring worker's compensation costs. Recent surveys by the National Federation of Independent Businesses, the nation's largest association of small businesses, reveal that as many as one-quarter of its 600,000 members have laid people off or forgone new hiring specifically because of worker's comp costs. Nationally, the number of worker's comp claims doubled during the 1980s—even though the U.S. industrial-accident rate remained flat.

For several years now, reform of worker's comp has been at the top of the legislative agenda of most states. But, says Alan Philp, a consultant to California's Senate Republican Caucus, "Everyone agrees there is a problem, and there's remarkable agreement on what the sources of that problem are. But it's difficult to get any consensus on how to solve the problem."

Worker's comp originally had two goals: to guarantee benefits to employees and to keep employers from going to court after every workplace accident. In 1911, Wisconsin became the first state to enact a worker's compensation law. By 1920, 40 states had enacted such laws. Today, all 50 states have mandated worker's compensation.

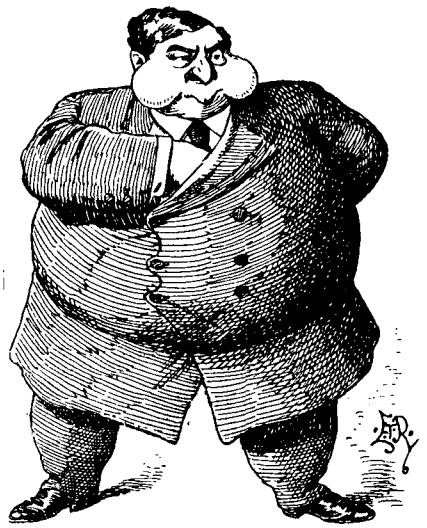
Worker's comp pays medical expenses and part of lost wages to employees hurt on the job, regardless of fault. In return, employees forgo the right to sue for any damages. The system is state mandated; almost all employers are required to carry the coverage, and almost all employees are covered. Most employers get their coverage through private insurers, but some big companies self-insure. State insurance departments regulate rates and set benefits. In almost all states, a worker gets at least two-thirds of his regular weekly pay until he recovers, and his medical bills are fully paid.

Worker's comp systems were supposed to keep the costs to employers down while taking care of injured workers. But

NO GAIN?

Why worker's comp is out of control

By Charles Oliver



today, neither of those promises is being kept:

◆ Labor leaders complain that worker's comp benefits haven't gotten more generous despite the rising costs. In California, for example, only 23 cents of each premium dollar eventually reaches an injured worker. The rest goes mostly to doctors and hospitals (32 percent) and to lawyers (insurers' expenses eat up about 26 percent, most of which goes to fighting lawsuits).

◆ The costs to business are rising. In 1991, employers poured more than $70 billion into worker's comp. Insurance premiums took annual double-digit jumps during the 1980s. The number of worker's comp claims more than doubled, while the amount paid out in the average claim more than tripled. It now exceeds $19,000. In 1991, worker's comp premiums accounted for 2.1 percent of the average employer's payroll, up from 1.26 percent in 1984, according to the Bureau of Labor Statistics.

◆ Despite the increases in premiums, insurance companies claim that they cannot turn a profit on worker's comp in many states. In fact, the insurance industry lost $1.4 billion on worker's comp in 1991.

◆ Litigation is soaking more and more dollars out of the "no fault" systems. In Illinois, litigation expenses now amount to 14 percent of all dollars paid out. In California, where the rate of litigation grew from 6.8 percent of all cases in 1981 to 13.8 percent in 1991, the Senate Republican Caucus found that the total cost of litigation exceeds the amount of money paid to doctors to treat workers.

Designed in the 1920s, worker's comp systems have simply failed to keep up with the times. They haven't adjusted to changes in the workplace, changes in other forms of health insurance, and, most important, changes in people's attitudes toward work and toward cheating.

When worker's comp was first enacted, workplace injuries were plain to the eye: broken bones, severed limbs, missing eyes. If a lumber-mill worker lost a finger to a band saw, the only issue was who was at fault—not whether the finger had really been cut off, whether the accident had really happened at work, or how the injury should be treated. A no-fault system could make everyone better off.

Today, factories are safer, and more people work in offices. As a result, workplace injuries are more complicated, harder to assess. If someone files a claim for a bad back, the employer

One chiropractor asked his patient whether he'd been injured on the job. He asked three times, until he got the right answer.

may question whether the worker actually has such an injury, whether it occurred at work, and whether the proposed therapy is the best treatment. Modern injuries lend themselves more to exaggeration and outright fraud and, as a result, to lawsuits over whether claims are legitimate.

Nationwide, back strain is the most common type of worker's comp claim—31 percent of all cases. It is also one of the most expensive to diagnose and treat; the average claim costs $23,916. In fact, various sprains and strains make up exactly half of all workers' comp cases. The trouble with this type of injury is that there usually is no clear-cut way to tell malingerers from those who are genuinely incapacitated. Indeed, the difference may not have anything to do with the injury itself.

Each year, almost half the American work force reports losing at least one workday because of back pain. But only 2 percent to 5 percent of those people file a worker's comp claim. For the last 13 years, Dr. Stanley Bigos, a professor of orthopedics at the University of Washington's medical school, has been studying back pain among Boeing workers to see what distinguishes those who file claims from those who don't.

"There was no relationship between physical activity and worker's comp claims. Workers whose jobs involved lots of heavy lifting didn't file at a greater rate than those who didn't," says Bigos.

Rather, a person's mental state seems to determine whether he or she makes a claim of back injury. "Those who say they are dissatisfied with their jobs or with life in general are much more likely to file than those who are happy with their jobs or lives," says Bigos.

Indeed, he notes that one job category he has been studying has had no back-pain claims since 1978, despite the fact that it involves more heavy lifting than most of the jobs at Boeing. "It's a high-status job," he says. "The people who do it have special uniforms. No one wants to lose that job and be sent down to hand out small parts from a bin."

Nationwide, the insurance industry estimates that around 20 percent of worker's comp claims involve cheating. But when the insurance industry talks about fraud, it means the real thing—faking injuries, filing claims for injuries that occurred outside the workplace, or pretending to be disabled after an injury has healed. But as Bigos's research suggests, there is another category of cheating that I call, for lack of a better term, "soft fraud."

There are two types of soft fraud. The first occurs when a worker genuinely feels that his general fatigue amounts to a disability, and the system allows him to collect on that fatigue. The second occurs when a worker tries to collect for a real disability that has a tenuous connection to his job. Since worker's comp has not adopted the cost-containment measures and eligibility restrictions that other forms of insurance have, people have an incentive to try to get all of their ailments covered by worker's comp.

Problems such as back pain, stress, cancer, hearing loss, and joint diseases can all be influenced by a person's genetics, personal habits, or emotional condition. These problems are rarely the result of a single incident; they arise gradually and may be due more to aging than to workplace conditions.

"If someone develops, say, cancer and his workplace *might* have contributed to it, he's probably going to convince himself that it did," says Orrin Kramer, an economist and consultant who studies the insurance industry. "It's just a question of getting covered by the most generous system available."

Many of these ailments can also be exaggerated or faked more easily than old-fashioned industrial injuries. And many people no longer feel any guilt about defrauding insurance companies. While no one has actually surveyed Americans to see how they feel about cheating on worker's comp, a 1991 study by the Roper Organization on auto insurance may provide some indication of what Americans think about the general topic of insurance fraud. In *face-to-face interviews* in 1,987 households, 23 percent said that it was acceptable to pad auto insurance claims.

If someone isn't already prone to file a fraudulent claim, there are other people who will prompt him. Doctors and chiropractors, in particular, have a financial incentive to urge workers to file false claims. Take, for example, Dennis L. Campbell, an Oregon chiropractor caught two years ago in a large state investigation of worker's comp fraud. Campbell told an undercover investigator complaining of an injury that there would be compensation if the injury occurred on the job. The secretly taped conversation went:

Campbell: "If this was a workman's comp, they'd pick up the tab."

Investigator: "I know."

Outside a Los Angeles unemployment office, a man calls out, "Got headaches, backaches, bad dreams? You can get money—$350 a week."

Campbell: "Did you hurt yourself at work?"
Investigator: "No."
Campbell: "Did you hurt yourself at work?"
Investigator: "No."
Campbell: "Did you hurt yourself at work?"
Investigator: "Yeah, I did."

And sometimes people with once-real injuries continue to collect worker's comp payments long after they could return to work. Consider Tom Neilson, whom ABC's John Stossel confronted in a 1990 *20/20* story on worker's comp fraud. After accidentally touching a power line, Neilson had claimed that he was disabled because he got nervous in social situations, was easily startled by loud noise and machinery, and suffered from tremors. But a private investigator videotaped him happily drinking beer at a crowded beach and racing a stock car at a noisy track.

Neilson's reaction when confronted with this tape: "I don't understand what gives them the right to go and tape me...."

Stossel: "What gives them the right is that you're asking them to pay you and you're cheating them. I don't see any tremors here."

Neilson: "This was three years after."

Stossel: "OK, so now you're better, go back to work. Stop collecting money from the state."

Neilson: "They say, 'Well, we can get you back to work at $4.60 or $3.50 an hour.' That's it."

Stossel: "Five bucks an hour is meaningful and gainful employment to lots of people."

Neilson: "Well, I guess to lots of people it is, yeah."

Stossel: "That's good enough for other people, but not for you? So, you I should support."

Neilson: "I had no control over the accident."

Stossel: "But you got better."

Neilson: "Yes."

Stossel: "You could work now."

Neilson: "Of course, I got better. I know...I can work, yeah, but not at $5.00 or $4.60 an hour, no."

This sense of entitlement is increasingly common, especially among younger workers. People seem to have the idea that wealth isn't something that is earned by hard work but is attained by luck or by jobbing the system. In a country in which people make bestsellers of books such as *Wealth Without Risk*, should we be surprised that people look at worker's comp as a source of easy money?

Outside the unemployment office on a busy commercial street in West Los Angeles, a dozen or so people are milling around. Two men stand out from the crowd. One, a Latino or Caucasian in his early 20s, hands out a lawyer's business cards to people as they enter the office. The other, an Asian also in his early 20s, is more energetic. He strides back and forth on the sidewalk, calling out, "Got headaches, backaches, bad dreams? You can get money—$350 a week."

These "cappers" get paid by lawyers or doctors for each person they drag in. What they're doing is technically illegal—the law forbids direct recruitment of worker's comp clients—but crackdowns are rare. (It is legal for law firms to advertise that they handle worker's comp cases.)

Unemployment offices are good hunting grounds for one big reason: plenty of disgruntled workers. (Remember Bigos's research.) And since California allows stress claims, unemployed workers can argue that the stress of being laid off or fired has left them unable to work. Indeed, as the state economy has soured, employees in firms that are rumored to be shutting down, moving, or laying off workers have started to sue because they have suffered stress because they *may* be fired.

Worker's comp benefits in California, as in most other states, are more generous for most workers than unemployment benefits. Following a Nixon administration recommendation, in the 1970s most states set worker's comp benefits at two-thirds of net pay. As the Los Angeles capper noted, a person can easily collect $350 a week for as long as his doctor says he is disabled.

The lure of easy money is hard to resist. "In every city, there are networks of doctors and lawyers who try to entice people to file workman's comp suits," says Leo Martinez, who runs a plastering business in Santa Barbara, California. He pays $18-$19 per $100 of payroll for worker's comp insurance. "I've had guys injured, minor stuff, and I send them to the doctor to get patched up. He automatically tells them about workman's comp and gives them the number of a lawyer."

Last year, one of Martinez's immigrant workers filed a worker's comp suit. He was awarded $240 a week plus rehabilitation expenses. And he got to collect the money even though he returned to Mexico. "That's about as much money as a banker makes in Mexico, and he doesn't have to

We have set up a system that not only allows but encourages people to lie and cheat. Should we be surprised that they have become liars and cheats?

leave his family to earn it," notes Martinez.

Still, Martinez finds it difficult to be angry with the worker. "I blame the system. TV is full of ads telling him he's got a right to this money, and he's a fool if he doesn't take it."

On weekday mornings and on weekends, California television viewers are inundated with commercials from law firms specializing in worker's comp suits. Usually they begin with actors performing little skits—falling off step ladders or lifting boxes—that end with the word "Oww!" Then a middle-aged white guy in an expensive suit tells viewers that California law guarantees them generous benefits if they've been injured on the job and that he will fight for their right to that money. One commercial ends with a stressed-out secretary and a warehouse worker with a back injury clinking champagne glasses on a yacht.

Almost every state legislature is considering reforms to eliminate fraud and other excesses from worker's comp. Each state's system is different, so the reform packages also differ. But most contain at least some of the following proposals:

◆ Allow diagnosis by only one physician, either one agreed to by both the employee and employer or one sanctioned by the state worker's comp board. The physician's diagnosis and prescription would be final. This would eliminate any disagreements and end the costly legal wrangling that often occurs during worker's comp disputes.

● End self-referrals by physicians. In most states, physicians can now refer worker's comp patients to clinics in which they have a financial interest. Ending this practice reduces a physician's incentives to cooperate with or to entice a fraudulent claim. Attempts to limit self-referrals have been vigorously opposed by physicians' lobbies.

◆ Increase policing of the system. "We haven't been doing enough to deter fraud," says Louis Custrini, vice president of California's Merchants and Manufacturers Association. Employers in other states agree, but government officials are beginning to take action. In Pittsburgh, the city government reported a 15-percent drop in worker's comp claims last year after it televised videos taken by hidden cameras of supposedly injured police officers and firefighters working at second jobs, playing basketball, and fixing roofs. Since Oregon's state-owned worker's comp insurer, SAIF, began a massive crackdown on fraud in 1990, bringing more than 200 fraud cases to district attorneys and professional boards for action, it reports that premiums have dropped by 23 percent.

◆ Include some form of copayment. Unlike people with ordinary health insurance, patients in the worker's comp system pay no deductibles and no part of the bills, giving them no incentives to turn down tests or treatments. Introducing deductibles and copayments into worker's comp can also reduce an individual's financial incentive to cheat by taking money out of his pocket if he does so.

◆ Introduce cost-containment programs such as managed care. A 1990 study by the Minnesota Department of Labor and Industry found that the treatments for back injuries and sprains cost more than twice as much and lasted longer when charged to worker's comp than to Blue Cross. Cost-containment reforms would bring worker's comp in line with other types of insurance and reduce a worker's incentive to lie about an off-the-job injury to get the more generous coverage. It would also reduce physicians' incentives to encourage patients to pursue treatment for longer than is necessary in order to pad their own bills.

All of these reforms are good, and they should be introduced into systems that don't have them. But the central problem with worker's comp will remain. As long as a quarter of the American public feels that it's OK to cheat on insurance claims, people will try to find ways to job the system.

Indeed, the troubles in the worker's comp system are just a small part of a much larger problem with the American political system. Since Plato, philosophers have realized that the character of a nation's political system influences the character of its citizens and vice versa.

We have set up a system that not only allows but encourages people to lie and cheat. Should we be surprised that they have become liars and cheats? Or that they resist efforts to make it harder to lie and cheat, even if, in the long run, everyone would be better off?

"Ultimately," says Custrini, of California's Merchants and Manufacturers Association, "what this says about the American character, the work ethic is frightening." ◪

Charles Oliver is assistant editor of REASON.

STRESSED OUT IN CALIFORNIA

Californians tap their worker's comp system 25 percent more often than Americans as a whole. A 1992 study by the state Senate Republican Caucus identified stress claims as the major reason for this higher utilization rate.

In the early 1950s, various states began to recognize that the emotional damages of a physical injury could themselves render a person unable to work. But in 1959 California expanded this notion by categorizing stress itself as a disabling injury. Most other states did not follow suit. California is one of only six states that allow stress claims.

For the next two decades, stress claims were a relatively small part of California's worker's comp system. But between 1980 and 1990—as it became legal for lawyers to advertise their services—the number of mental stress claims in California increased nearly tenfold. With awards approaching $13,200 each, mental stress claims cost California businesses over $500 million annually. And that doesn't count legal expenses.

Stress claims are litigated more often than other types of worker's comp claims. And the costs of preparing medical reports for stress claims are higher than for other types of injuries.

The problem is that there are no objective measures for stress disability. Who among us hasn't grown tired of his daily routine or had a disagreement with the boss or a coworker? Most of us manage to cope.

But what if someone said that we could take a break from work—with two-thirds of our salary—if we claim that the stress has left us unable to work? In effect, that's what California's worker's comp system does. In fact, it's even worse because to collect a California worker only has to prove that 10 percent of his "injury" is caused by his job.

To establish job-related stress, a worker complains of headaches, bad dreams, inability to concentrate. If he works around machinery, he says that loud noises startle him. If he works in an office or store, he claims that social contact now leaves him paralyzed by fear. And he goes to a therapist—very likely the one who will collect fat worker's comp "rehabilitation" payments to treat the worker during his convalescence—to confirm these symptoms. Employers know this, so they hire their own psychologist to examine the worker and fight the claim.

State legislators know California's system of rewarding stress claims needs to be reformed, but they haven't been able to make any meaningful changes. In fact, the one change they did make may have made things worse. As part of a 1991 worker's comp reform package, the legislature changed the threshold for collecting for stress-related disability. Previously, the workplace had to be the "predominant" cause of the stress. But businesses complained that that standard was too vague. So now employees have to prove that at least 10 percent of their stress is job-related—a lower threshold that is just as subjective.

Several different bills to change stress claims were introduced during the 1992 session of the legislature. One would have returned the standard for collecting stress-related disability payments to the old "predominant" cause. Another would have established a 50-percent standard. And another would have entirely eliminated cumulative stress as a disability for most workers. (Firefighters and police officers were excluded.) This bill would have allowed stress claims only for "sudden and extraordinary" job conditions. But intensive lobbying by lawyers led to the defeat of all these proposals.

—Charles Oliver

THE DECAY OF DEMOCRACY

BY BRIAN DOHERTY

It will be of little avail to the people that the laws are made by men of their own choice if the laws be so voluminous that they cannot be read, or so incoherent that they cannot be understood.

—The Federalist Papers

Prescient fellows, those founding fathers. *Voluminous* and *incoherent* are words that almost seem coined to describe this year's North American Free Trade Agreement (NAFTA). (Actually, so do *monstrous* and *fraudulent*, but we'll get to that later.)

What the public is told about NAFTA sounds fine, if you accept that free trade between individuals and companies is ethically correct and redounds to the benefit of all in the long run. NAFTA will, or so the media and the Bush administration tell us, eliminate, over the course of many years, barriers on goods traded between the United States, Canada, and Mexico and create a free-trade zone from "the Yukon to the Yucatan."

Of course, most likely none of you has actually seen NAFTA, much less attempted to read it and judge if it says what we're told it says. No, we lazy and weak Americans are all too busy playing miniature golf, not valuing our families, and spending profligately so as not to achieve an optimal national savings level.

But once you cast your eyes on these laws in their naked splendor, you begin to realize that this public-policy ignorance is more than just rational on our part—it's planned by those trade bureaucrats and business interests who are actually crafting these laws. (At least, I assume that NAFTA's tortured and torturous prose is the product of an actual human mind.)

Some old fellow who probably had three names once compared the process of lawmaking to the process of sausage-making, with lawmaking coming out on the raw end of the comparison.

Indeed, when you look at the finished result of the lawmaking process, well, I think you'd be more entertained and delighted staring at the viscous, green-gray glop at the bottom of the old black skillet after a morning rush at Cracker Barrel when everyone ordered a couple of links on the side.

Because of some sort of karmic imbalance I'm working hard at setting right, I've had the misfortune to thumb my way through the winding chapters, annexes, and appendices of NAFTA. I should have listened to one Washington policy analyst, who regularly tries to explain the ins and outs, benefits and pitfalls of NAFTA to the media (and understandably prefers to remain nameless), when he said, "I'm not gonna bother to read it—nothing in there could change my mind."

Someone who could have their mind changed by NAFTA should definitely avoid walking within blocks of a Dianetics counseling center. NAFTA's twisted, lawyerly prose, endless cross-referencing, huge lists of marginal differentiation of hundreds of different kinds of cotton yarn, etc., doesn't even approach the (minimal) inspirational value of Bush's alliterative yammer about the Yukon, etc.

Just seeing NAFTA should be enough to set off anyone's bullshit detector. The ideal, platonic NAFTA, the NAFTA that merely did what we're all told it's meant to do, could be one sentence long: "The undersigned countries agree to eliminate all tariffs, laws, and regulations that discriminate against the goods, services, and investment from the other undersigned countries by [date]."

The NAFTA that we must contend with in the phenomenal world, however, is 1,061 pages, seven pounds and 14 ounces of language like *this*: "For the purpose of determining the origin of a good of this Chapter, the rule applicable to that good shall only apply to the fabric which imparts to the good its essential character and such fabric must satisfy the tariff change requirements set out in the rule for that good. If the rule requires that the good must also satisfy the tariff change requirements for visible lining fabrics listed in Note 1, such requirement shall only apply to the visible lining fabrics in the main body of the garment, excluding sleeves, which covers the largest surface area, and shall not apply to removable linings."

And math like *this*: "When making projections of its net production surplus, each Party shall consider adjustments, in appropriate circumstances, to such projections to take into account a change in stocks for the current marketing year exceeding an upper bound calculated in accordance with the following formula [Schedule 704.2(I)(B)(3)(e)]":

$$B = \left(\frac{\left(\sum_{N=1}^{5} F_N \right)}{5} + 10 \right)\%$$

I'd like to call some congressman who supports NAFTA and ask him, voice quivering with outrage, how he can possibly defend the provisions of Schedule 704.2(I)(B)(3)(e); can't he see that our domestic industry is doomed to be overrun by Micronesians so fast we won't even notice our infrastructure collapse unless we realize that B *should* equal:

$$\left(\frac{\left(\sum_{N=1}^{5} F_N \right)}{5} + 5 \right)\%$$

The sad thing is, years of political humor have almost trained us to expect this sort of nonsense. Sure, we all know that what passes for representative government in the United States today is, by necessity and design, almost entirely the work of self-interested bureaucrats and special interests obfuscating any attempt at oversight or understanding on

the part of the citizenry—or even our elected representatives—with niggling, complicated, picayune, over-involved legislation that is both overly broad in its reach and overly specific in its grasp.

I challenge any citizen who is not a trade bureaucrat or practicing trade lawyer to grapple with NAFTA's mysteries and emerge sane. Come on, I dare you. I double-dog dare you. Any takers?

After thumbing through NAFTA, my advice to all college-bound students is, go for the B.A. degree in trade bureaucracy—there'll be no shortage of jobs after NAFTA passes.

Didn't think so. So most of us are not aware—and will never become aware—of some of NAFTA's provisions.

For example, while the language of NAFTA recognizes that export subsidies are inimical to free trade, it doesn't even begin to eliminate them—it merely commits the parties to keep on plugging in the endless and mostly ineffectual General Agreement on Tariffs and Trade (GATT) talks in an attempt to eliminate them on agricultural goods.

Antidumping laws, among the most easily abused of the anti–free trade laws, designed to protect Americans from being fooled into paying too little for a desired item, are not affected by NAFTA.

NAFTA requires all importers and exporters to keep endless records to prove the local origin of any exported good (in any language the importing state prefers), even if the exporter is not the producer of said good. In that case, the exporter can complete and sign the requisite Certificate of Origin based on the "producer's written representation that the good qualifies as an originating good" or even "a complete and signed Certificate for the good voluntarily provided to the exporter by the producer"—though thankfully

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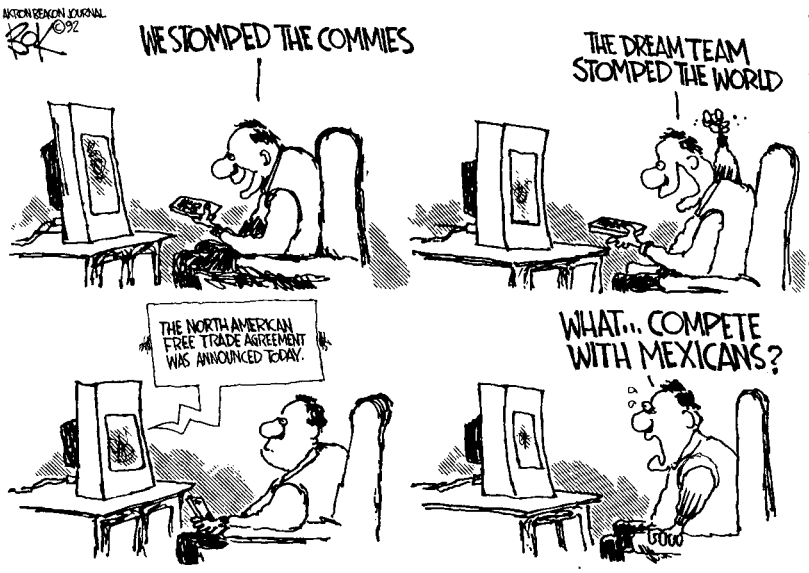
nothing in this statute should be "construed to require a producer to provide a Certificate of Origin to an exporter."

For five years after signing these certificates, the exporter or producer must retain records of the "purchase of, cost of, value of, and payment for" any good exported, and all materials, including "indirect materials," used in the production of the exported good. Whatever nation has a comparative advantage in producing filing cabinets will certainly come out the winner in the NAFTA game.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WE STOMPED THE COMMIES
THE DREAM TEAM STOMPED THE WORLD
THE NORTH AMERICAN FREE TRADE AGREEMENT WAS ANNOUNCED TODAY.
WHAT... COMPETE WITH MEXICANS?

After thumbing through NAFTA, my advice to all college-bound students is, go for the B.A. degree in trade bureaucracy—there'll be no shortage of jobs after NAFTA passes.

The bulk of NAFTA's sections begin with the announcement of the creation of some new subcommittee or council, consisting of representatives of all three nations, to hash out endless bureaucratic details under this soi-disant free-trade pact. You've got your Land Transportation Standards Subcommittee, your Telecommunications Standards Subcommittee, your Automotive Standards Council—and what free-trade pact would be complete without a Subcommittee on Labelling of Textile and Apparel Goods?

Then try not to let your Inner Bureaucrat drool when it spies Annex 1901.2, which sets forth the standards for the establishment of generic "binational panels" to settle disputes. Seventy-five plumb openings here, and remember, a majority must be lawyers in good standing.

And if the thought of all the unrestricted and wild free trading that NAFTA is sure to trigger (chortle) worries you, well, a quick look at Article 801 should set your mind at ease. This doozy guarantees that (and forgive my quote) "if a good originating in the territory of a Party, as a result of the reduction or elimination of a duty provided for in this Agreement, is being imported into the territory of another Party in such increased quantities, in absolute terms, and under such conditions that the imports of such good from that Party alone constitute a substantial cause of serious injury, or threat thereof, to a domestic industry producing a like or directly competitive good, the Party into whose territory the good is being imported may...suspend the further reduction of any rate of duty" and "increase the rate of duty on such good." This rise is restricted to the most-favored-nation applied rate of duty at the time. Still, in essence this article announces that we'll cut tariffs only until the point where it starts to have useful effects in redistributing resources to their most efficient and valued uses, and then it's back to business as usual.

NAFTA is certainly full of much more of this kind of counterproductive nonsense. I couldn't really tell you. Like everyone else—from congressmen and the president to reporters and pundits—I haven't read the whole thing. I suspect I've probably read more of it than most of the above, however; and I think it likely that there's not a single individual on the planet who has read and understood it in its entirety.

Something has gone dreadfully wrong with representative democracy when it is patently obvious that neither our elected representatives who vote on laws or the elected members of the executive who enforce them have read or understood them. Who does understand them? The unelected bureaucracies who enforce them and the private industries who can benefit or be harmed by them. The "fast-track" negotiating authority Bush got for these trade deals was supposed to prevent Congress from adding tons of special-interest detritus; lawmakers are now permitted only to vote yes or no, not amend.

But from the evidence on the page, NAFTA has all of the special considerations, geegaws, whistles, and bells that the fast track was meant to prevent. But all the special-interest pleading was done directly with an unelected bureaucracy, leaving the people and their elected representatives out of the loop entirely. And we don't even have a public record of how it was done.

Nor, even, do we have a useful public record of how it turned out. The campaign rhetoric and newspaper stories don't get beyond the basic, and misleading, representation of NAFTA as eliminating all trade barriers between the North American nations, plain and simple. Nothing about NAFTA appears simple, and if it really is, you couldn't tell, because it certainly isn't plain.

Despite all this, is NAFTA as it stands better than the status quo? Reluctantly, one has to say yes. While it is obviously not ideal, it will reduce or eliminate certain tariffs. And it may have long-term positive effects on the political psychology of the United States. Freeing up trade with an essentially Third World country such as Mexico might soften the enemies of free trade for the next necessary step: unilateral tariff eliminations by the United States. That's the only way to ensure that future trade liberalization isn't bogged down in the trilateral political maneuverings that contaminated NAFTA.

Brian Doherty is a contributing editor at Liberty *magazine.*

CHIP BOK

SERVICES FOR SALE

BY JONATHAN MARSHALL

A city that sprang from the bean fields of Southern California little more than 40 years ago may point the way out of the financial crises that have gripped local governments across the nation.

When the city of Lakewood was created in 1954 to escape annexation by neighboring Long Beach, it lacked everything a normal city takes for granted: a police force, a fire department, a fleet of garbage trucks, and a big staff to run the whole operation. To survive, it literally invented a new way to deliver services. By contracting out nearly all of its operations to county agencies and private firms, rather than providing them in-house, this radical innovator spawned a host of imitators whose streamlined, efficient operations hold lessons for cities everywhere.

The pioneering Lakewood, California, City Council was sworn in in 1954. Today other cities are following its "contract city" model.

California's "contract cities," as followers of the Lakewood plan are called, prove that the job of making urban government work in today's lean times need not be all pain and no gain, fit only for masochists. Contract cities take the principle of economy to an extreme. They reject the traditional assumption that only city departments can haul away trash, pave roads, or run buses. As their name implies, these cities contract out much of this work—up to and including police and fire services—to whichever public agencies or private firms offer the best quality and price.

"We are firmly convinced that it is the most economical and cost-effective way to provide major services, especially in today's economy," says Sam Olivito, executive director of the California Contract Cities Association, based in the Southern California town of El Monte. The organization, founded in 1957, represents 77 of California's 468 cities, ranging in size from 150,000 people to a mere 86.

With all the recent debate over privatization sparked by the Reagan/Thatcher era, "many people will find it surprising that all these cities have been going about contracting for services for over 30 years," observes E. S. Savas, head of the Privatization Research Organization at Baruch College in New York. "There is a wealth of knowledge and experience in California that can be tapped. It is something no responsible city manager or city council should ignore, especially given the new burdens imposed by states on local governments."

The movement was born in Los Angeles County after World War II, as hundreds of thousands of people migrated westward, attracted by sunny climes and defense jobs.

Of the many suburbs that sprouted up to house them, none was more remarkable than Lakewood, a giant planned development of 17,500 homes built almost overnight on 3,375 acres of bean fields and hog farms just north of Long Beach. With the country's largest shopping center and tract homes selling for $43 a month with no down payment, Lakewood quickly became the largest single-family housing development in the nation, dwarfing Levittown. By the early 1950s, Lakewood had a larger population than 90 percent of American cities.

The city of Long Beach began eyeing the affluent development for annexation in 1952. Local civic and business leaders in Lakewood fought back with a campaign to incorporate as a new city in order to give local residents, rather than the county or Long Beach, the right to control services and land-use decisions. But the staggering cost and effort of creating such municipal services from scratch had kept any city from incorporating in California since 1939.

Then a young Lakewood attorney named John Todd came up with a revolutionary plan to sidestep that hurdle by buying services from the county. Supporters promised voters a city "without a payroll" by contracting for services. Lakewood voters turned out a big majority for incorporation in 1954, overnight creating the 16th-largest city in the state.

Lakewood became the first city in the country to buy all its basic services, from fire protection and law enforcement to mosquito abatement. It signed 23 service agreements with county departments. It also contracted with private firms for garbage collection, street sweeping, helicopter maintenance, traffic-signal maintenance, data processing, and tree trimming and removal.

"The city pays for exactly what it uses of these services and no more," its public affairs director, Guy Halferty, observed in 1956. The happy result was a property tax lower than those of all

COURTESY OF DONALD WALDIE, LAKEWOOD CITY HALL

other cities in the county. Lakewood managed its affairs with only a city administrator, a city clerk, a city attorney, a director of public relations, an administrative assistant, and four secretaries—compared to the usual complement of 400 employees for traditional cities its size.

The Lakewood plan, as it came to be known, received national publicity and spawned numerous imitators. Twenty-six other Southern California communities totaling more than 580,000 people incorporated using its model over the next seven years. More followed in California, Washington, Oregon, Nevada, and parts of the East Coast.

Streamlined government was a powerful selling point. Backers of incorporation in Temple City adopted the slogan "representation without taxation." A leader in Dairy Valley—known as the "city of 500 people and 60,000 cows"—declared, "We don't intend to build a city hall or other public buildings."

The promises weren't mere rhetoric. By 1961, half of California's contract cities had tax rates only one-third as high as the average in older, traditional cities. The other half operated without any city property tax at all.

Contract cities, as promised, have also maintained lean bureaucracies: La Mirada in Orange County, population 43,000, employs only 77 people yet provides a vast array of services through some 70 different contracts; neighboring La Habra, a traditional city, needs a staff 3½ times as big to serve 52,000 people.

Contract cities have undoubtedly saved money by shopping around for the best deals. A 1987 study by the San Mateo consulting firm of Hughes and Heiss found that the city of Cupertino, the home of Apple Computer in the heart of Silicon Valley, was saving about 20 percent on law enforcement and 10 percent on fire control by contracting with the county sheriff and fire district. "There's no question in my mind that it's cheaper to contract for services," says Cupertino City Manager Donald Brown, who has worked in both traditional and contract cities.

Saving money isn't the only advantage. By avoiding the headaches of dealing with large staffs and public employee unions, contract cities can change their mix and level of services quickly. If graffiti starts getting out of hand, for example, they can hire more cleanup crews without permanently adding to city staff. "The point of contracting is flexibility," argues Lakewood spokesman Donald Waldie. "Contract cities have smaller work forces, so there is no cumbersome bureaucracy that has to be shifted like the Queen Mary."

Lakewood thus contracts separately with the county for gang prevention, drug-abuse prevention, and helicopter patrols. "We can purchase the service of an additional patrol car, then decide we don't need it any longer," Waldie says. "We can literally change year-by-year the total law-enforcement picture in the community, based on changing conditions in Lakewood."

Good performance requires close supervision, a condition most contract cities take for granted. "We monitor contracts by centralizing and computerizing our customer resident complaint system," Waldie explains. "We've been doing it for 20 years. We take in every complaint residents have about city services, whether provided by the city, county, or private contractors. They are responded to by the appropriate department and tracked."

The ultimate aim of communities that incorporated under the Lakewood plan was local control over land uses and other decisions. Contracting offered them a way of reconciling two great American values: decentralization and efficiency.

Jewell Bellush, a political scientist at the University of California, Berkeley, reported to a state commission in 1960 that contract city officials saw their model as "vital to the preservation of the democratic way of life based on identity of community interests and protection of home rule."

A study of the Lakewood plan by Los Angeles County in 1977 similarly noted that contracting produces "a city operation without large capital investment and minimal overhead but retaining grassroots government. It is decentralized policy with centralized administration."

Not everyone sees this process as virtuous. Mike Davis, a socialist urban critic and author of *City of Quartz*, argues that the Lakewood plan simply gave affluent suburbs and industrial zones a cheap way to exclude outsiders through incorporation, accelerating the Balkanization of Southern California into pockets of rich and poor, white and minorities. "At the end of the day, the result is simple: The poor get poorer and the rich get richer," Davis argues.

Other critics think many contract cities go too far when they contract out some core services like public safety. Lee Risner, city manager of La Habra, says, "I think there are certain key things cities have to have to be cities. Police is one. You want more local control than you can get through contracting."

Even Risner, however, acknowledges the virtue of contracting for many other services when private firms do the job better. La Habra uses them to handle garbage collection, recycling, sewer cleaning, some tree trimming, street maintenance, and recreation programs.

But when good managers let the city perform jobs more cheaply in-house—an advantage that may come and go as competitive conditions change—La Habra sometimes contracts the other way: selling services such as animal control, building inspection, and fire control to nearby parts of the county. "We facetiously call it the La Habra plan," Risner says. "It's the opposite of the Lakewood plan." Whatever its name, the idea is catching on. According to Baruch College's Savas, the London borough of Wandsworth is selling services to other boroughs in that city as part of a contracting revolution that is sweeping local government in England.

However contrary on the surface, the La Habra and Lakewood plans have much in common: Taking nothing for granted, they abandon tradition in favor of seeking the best value for the public's money from the full mix of possible service providers.

Some of the more traditional, "full-service cities" have also denigrated contract cities as slaves of "big county government." In practice, however, con-

tract cities have avoided letting counties jack up costs or let service quality slide. Using their political clout, the contract cities rammed a law through the state legislature in 1973 barring the counties from charging them certain overhead costs. And savvy cities have exploited the threat of competition—from private firms or in-house departments—to keep county agencies in line.

Cupertino just renegotiated its five-year contract with the Santa Clara County Sheriff's Department—but first it let the sheriff know that discussions were underway with neighboring cities to provide the same service. "As long as you have a real option, including forming your own department, that takes away any idea that we are a captive partner," says Brown. "We are a very valued client of the sheriff, and he does an awful lot to make sure we remain happy."

When Los Angeles County could not or would not deliver high enough service levels, several cities in years past turned to private companies to sweep their streets. Other cities set up their own library systems when they figured they could do it more effectively.

All this competition has had a salutary effect on county departments, which have to perform audits and justify their costs to their city clients. A 1977 report by the Chief Administrative Office of Los Angeles County noted, "The greatest impact of the program on County operations has been to create an awareness on the part of all departments that they are no longer providing services for a captive clientele—but to an audience of cities that can stop service at any time. Therefore, they are obligated to keep their services up to date, responsible, economical, and, above all, efficient."

The same review added that "ordinary citizen complaints may not upset a complacent bureaucrat in a jurisdiction which has a monopoly in providing services to the citizen. However, the siren blast of an irate city councilman stating that he can easily obtain his services elsewhere makes County employees most responsive...[and] in turn, results in improved methods and cost reductions."

The example set by the contract cities has spurred many old-line cities to reexamine their own practices and begin contracting with private firms or county departments. The cities of Glendora and Signal Hill, for example, which incorporated in 1911 and 1924, respectively, gave up their city fire departments and joined the Los Angeles County fire protection district some years ago.

Olivito of the California Contract Cities Association says he gets numerous calls from other cities requesting information on contracting. "It is a growing concept," he says. Or as League of California Cities spokeswoman Joan Hogan puts it, in the four decades since Lakewood stirred the pot, "all cities have to some extent become contract cities."

Jonathan Marshall is economics editor of the San Francisco Chronicle.

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THE FOSSIL GESTAPO

BY JONATHAN KARL

Located 12 miles from Mount Rushmore in the Black Hills of South Dakota, Hill City is a tiny and economically depressed town that relies on logging and tourism to support its population of 650. So it was big news when Neal and Pete Larson opened the Black Hills Institute for Geographical Research down the street from Hill City School, a K-12 school that serves children living as far as 20 miles away. Not only were the Larsons world-renowned paleontologists, but, by creating 15 new jobs, the institute became the town's third-largest employer (behind the school and the lumber yard).

Hill City residents are furious that the FBI confiscated the largest and most complete *T. rex* ever discovered from the local institute whose team unearthed it.

And last spring the Larsons brought the international spotlight to Hill City when the institute excavated the largest and most complete *Tyrannosaurus rex* skeleton ever discovered. The town was abuzz with excitement: The Larsons began constructing a museum to house the 60-million-year-old treasure, *National Geographic*'s top photographer announced plans for a photo shoot, a Canadian firm began filming an IMAX film on the excavation, and the paleontologists at the institute made headlines around the world as their ground-breaking research began shedding new light on the life of the most powerful carnivore ever to roam the earth.

But the excitement ended with a display of force greater than any in Hill City's history. In a surprise raid at dawn on May 12, 30 armed FBI agents and 20 National Guardsmen sealed the institute and loaded the 10-ton fossil into crates and onto two 18-wheel tractor-trailer trucks. They also carted away all written records pertaining to the fossil. While the National Guardsmen moved the dinosaur bones, U.S. Attorney Kevin Schieffer offered this terse explanation for the raid: "The fossil is property of the United States. Period."

The politically ambitious Schieffer was prepared for the television camera crews that arrived on the scene—he even wore face makeup—but he certainly wasn't prepared for the reaction of Hill City's 650 residents. The school children were so angered that the feds stole their *T. rex* that they erected a giant replica of the dinosaur in the town center—complete with a rosy-cheeked effigy of Schieffer crushed in the beast's jaw. One observer summed up the general feeling in the town: "We have a criminal justice system, and one of those criminals just stole a dinosaur."

For now the federal government has the once-mighty *T. rex* locked up in crates and under FBI guard. It is the subject of a bitter custody battle among the United States, the Cheyenne River Sioux Tribe, and the institute. Among the tangle of issues raised by this highly unusual exercise of federal power are the property rights of American Indians and the ability of private individuals to conduct scientific research on public lands. The resolution of these issues will affect museum collections, university studies, and fossil dealers around the world.

The story began in August 1990, when commercial paleontologist Susan Hendrickson discovered the *T. rex*'s protruding bones on the land of South Dakota rancher Maurice Williams, a member of the Cheyenne River Sioux Tribe. Hendrickson's employer, the Black Hills Institute for Geological Research, paid Williams $5,000 for the right to the fossil. A dozen professional paleontologists then spent over 1,000 hours excavating the *T. rex* and bringing it to Hill City for further study and restoration.

As the excavation got under way, it became apparent that the fossil was a priceless scientific marvel. Forty-one feet long and 13 feet tall, the skeleton has teeth the size of bananas and even includes the fossilized remains of the reptile's last meal (a duck-billed dinosaur). Furthermore, there are only 10 other known *T. rex* skeletons in the world. Sensing a financial windfall, the Cheyenne River Sioux tribe contacted the U.S. attorney's office to inquire about their rights to the fossil. But by ordering the surprise raid and declaring the bones federal property, Schieffer surprised the tribe as much as anybody else.

Citing the obscure Antiquities Act of 1906, which bans the removal of man-made artifacts from federal lands (it has never been applied to fossils), Schieffer said that Maurice Williams had no right to sell the fossil found on his land. With

ED GERKEN

the stroke of a pen, Schieffer declared Williams's ranch federal property. To understand how he did this, you have to understand the bizarre tangle of federal laws that apply to Indian reservations.

Shortly after buying the ranch from a white homesteader in 1969, Williams exercised his right to have the property temporarily held in trust for him by the federal government. This legal loophole allows Indians to avoid paying property taxes. Schieffer argued that because the land is held in trust by the federal government, it is actually federal property—and therefore under the jurisdiction of the Antiquities Act. If this interpretation of federal control is correct, Indian property owners on reservations have no property rights.

Schieffer's action and its implications regarding property rights on the reservation stunned South Dakota Indians. "The United States government has kept the Indian nations under its thumb for more than 200 years," mused Tim Giago of the *Lakota Times* in a column entitled "Federalosaurus Rex Rides Again." Giago condemned the seizure, as did tribal chairman Gregg Bourland.

While the seizure was not intended as an assault on American Indian property rights, it was clearly an effort to thwart the work of commercial paleontologists. Federal authorities simply don't like the idea of science for profit.

Founded in 1978, the Black Hills Institute is a for-profit company that works without public subsidies and without federal supervision. It funds its work through sales of restored dinosaur fossils—to museums, universities, and private collectors. The institute's long list of clients includes the Yale Peabody Museum, the American Museum of Natural History, and the Smithsonian Institution.

Most fossils used in university studies or housed in museums were found either by amateur fossil collectors or commercial dealers. But for purists, there is something unseemly about digging up dinosaur bones for profit. As Robert Hunt, the secretary of the Society of Vertebrate Paleontology, asked incredulously, "How can you

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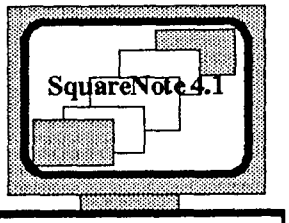

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possibly put a price on a fossil?"

The seizure of this *T. rex* has divided the paleontology community into two camps: those who deplore the raid and those who applaud it as a step toward banning commercial fossil collecting. Led by Hunt, the latter group wants to prohibit the sale of fossils and to ensure that fossil collecting is regulated, supervised, and licensed by federal authorities. The first step in fighting private collectors is keeping them off federal property. For Hunt, "Prohibition of commercial collecting on federal lands is essential to scientific progress in vertebrate paleontology."

In the wake of the *T. rex* seizure, the executive committee of the SVP issued a direct attack on members Neal and Pete Larson by calling for the expulsion of members who "engage in commercial collection and sale of vertebrate fossils from Federal lands." They also lobbied Congress in favor of a bill introduced by Sen. Max Baucus (D-Mont.) that would ban commercial collectors from federal lands. In a memorandum to SVP members, the executive committee explained that "vertebrate fossils are part of a national trust" that must be protected from commercial paleontologists who might sell them to private, or even foreign, collectors.

But not all professional paleontologists agree with the strident position against commercial collecting. In fact, Clayton Ray, the SVP vice president, resigned to protest the stand taken by the governing committee. The curator of vertebrate paleontology at the Smithsonian Institution, Ray has been an SVP member for 30 years and was due to become its president in October. Another prominent paleontologist, Robert Bakker of the University of Colorado, told *The New York Times*, "Through the whole history of dinosaur paleontology, more discoveries of new species and whole new faunas have been made by 'amateurs' than those few people privileged enough to draw taxpayers' money to do their job."

In fact, Pete Larson's Black Hills Institute has excavated two of the 11 discovered *T. rex* skeletons. If these bones had not been unearthed by these enterprising paleontologists, they would have eventually been destroyed by erosion.

Hunt argues that "scientific values" of dinosaur fossils must "take precedence over more transient commercial and recreational values." Most paleontologists would agree. But Hunt's war against commercial collecting sets back the cause of science.

Because most fossils used in university studies or housed in museums were found either by amateur fossil hunters or commercial dealers, the war against commercial collecting often sets back the cause of science.

Donald Wolberg, of the New Mexico School of Mines, puts it this way: "Commercial collectors and amateurs make terrific contributions to paleontology by getting these things in the open. Our job is to learn and educate people about what fossils mean, not to put people in jail because they make a living digging them up."

Wolberg served with Black Hills Institute President Pete Larson on a National Academy of Sciences committee on paleontological collecting. To the dismay of many in the federal government, the committee's report touted the contributions of private collectors and recommended that they be given *increased* access to federal lands.

The report read, "The Committee was dismayed to learn of the number of instances of disruption of collecting by what seem to be overzealous regulatory activities of federal agencies. From a scientific viewpoint, the role of the land manager should be to facilitate exploration for, and collection of, paleontological materials." The report was released in 1987 and approved by a vote of the SVP membership, but its recommendations were never followed. Instead, five years later, overzealous regulatory activity culminated in an FBI raid on the Black Hills Institute.

At the time of the federal seizure, the Black Hills Institute was preparing the skull of the *T. rex* for a trip to the Marshall Space Flight Center in Alabama for a CAT scan by NASA scientists. The test would have been the first of its kind ever done. It promised to bring new clues about dinosaur anatomy, but like all other scientific work on the *T. rex*, the plans for the CAT scan were indefinitely delayed by the FBI raid.

U.S. Attorney Schieffer offered a typically bureaucratic rationalization for halting the ground-breaking research: "It's waited 67 million years for a CAT scan. Will another year or two make a difference? Right now it's evidence in a criminal case."

With research halted and commercial paleontology dealt a serious setback, the 650 citizens of Hill City struggle to understand why the federal government stole their dinosaur. Before the raid, local school children had been raising money through bake sales for a planned nonprofit museum that was to house the *T. rex* they named "Sue," after its discoverer. Since then, townspeople have dubbed the museum "Sue Freedom Center" and held signs saying "Free Sue" and "Stop the Fossil Gestapo."

Shortly after the seizure, Sen. Tom Daschle (D-S.D.) came to Hill City to hold a town meeting about Sue. As more than 100 locals gathered on the steps of a local restaurant, Daschle referred to the seizure of the *T. rex* as an "invasion" and said, "There is something un-American about the way this was handled. In some other countries, you expect paratroopers to come in, but not in the United States, and certainly not in South Dakota."

A former resident of Hill City, Jonathan Karl is the associate editor of Freedom Review, *a bimonthly magazine published by Freedom House.*

THE POST-SOVIET SPHERE

BY MARTIN MORSE WOOSTER

Until 1989, the conventional wisdom about the Soviet Union and the nations it had conquered could be summarized in three sentences: The Soviet Union was an inflexible totalitarian regime incapable of change. The Soviet economy, half as large as America's, was capable of producing a minimal amount of goods but would never be transformed into a capitalist system. And what opposition to communist regimes existed largely consisted of intellectuals whose critiques were noble, inspiring, and ultimately futile.

Why did the think tankers turn out to be so wrong in their predictions? A major reason is the enduring power of nationalism. The Soviet empire has split into a thousand states (or statelets); each emerging nation has its own epic, a romance of glorious conquest over its perfidious neighbors. The Romanians compose diatribes about the wickedness of the Hungarians; the Hungarians counter with ballads about the vileness of the Serbs; and the Serbs decide to hate everybody they can think of.

Each nation also plots for expansion; the Poles dream of "Greater Poland," the Hungarians scheme for "Greater Hungary," and a neo-fascist crank named Vladimir Zhirinovsky acquires several million votes in the Russian elections by telling that nation's electorate of the sunny future that would result from the reconquest of Alaska.

Such petty feuds would be of little interest were it not for the Serbs, who, in their lunatic quest for a "Greater Serbia," have sent their legions into the newly independent Bosnia-Herzegovina. Because the Serbs crossed an international frontier (albeit one that had only been established a few months before), the think tanks thundered that Mighty Superpower America should *do something*.

On the campaign trail, Bill Clinton decided to show that he liked force by calling for the bombing of Sarajevo. And seven of the nine pundits queried by *Policy Review* for their fall issue thought some show of American force was in order. (Only Amy Moritz of the National Center for Public Policy Research and *The National Interest*'s Michael Lind opposed U.S. involvement.)

The problems of the post-communist world's economies seem as insoluble as their politics. How do you promote privatization when your country's whole economy is made up of antiquated, state-owned firms that can't be made profitable?

But the saber-rattling pundits failed to answer several pertinent questions. What, exactly, were "Bosnians"? How did they differ from Serbs and Croats? And why should America go bombing Europe when the European nations decided to react to the conflict by sending token forces and expelling most Bosnian refugees?

As Aleksa Djilas of Harvard's Russian Research Center observes in the September 21 *New Republic*, "Bosnians" are equally divided among Serbs, Croats, and Muslims; most of the region's history consists of two of the three groups ganging up on a third. Because no ethnic group was large enough to dominate, both the Turkish and the Austro-Hungarian empires kept the region as a separate province unattached to either Serbia or Croatia. The only empire that gave the Muslims power were the Nazis; they promptly formed an Islamic S.S. division that spent World War II slaughtering the Serbs.

Were Western armies able to establish an independent, Muslim-dominated Bosnia, Djilas contends, the result would be an artificial state that could only survive if "a foreign power sent several thousand soldiers to police every valley in perpetuity."

In the August 1 *Spectator*, G. M. Támas, leader of Hungary's Free Democrats, a conservative opposition party, notes that the frontiers between central and eastern European nations may well become more artificial in the future, as ethnic members living in a particular nation gain the right to vote in their homeland's elections. If the Hungarians in Serbia, Romania, and Slovakia can vote in Hungarian elections and the Romanians in Moldova can vote in Romanian elections, Támas asks, what effect will this have on Hungarian or Romanian frontiers?

Támas contends that the ethnic squabbles will continue indefinitely, and that these age-old conflicts have very little to do with such Western notions as democracy or the rule of law. "Modern armies and modern politicians cannot prevent village neighbors shooting each other in their back gardens, short of stationing a tank in each of the millions of back gardens of eastern Europe over the next thirty years," Támas writes. "So please keep out, stand aside and do not imagine in that tiresome rationalistic way that there is a solution to every problem. There is not."

The problems of the post-communist world's economies seem as insoluble as their politics. Some parts of the former Soviet empire—the Czech lands, Hungary—are doing well in their journey toward privatization. But most of these countries face a dilemma. Most noncommunist governments seeking to sell state-owned businesses have spent years

ensuring that these businesses were both viable and profitable. But what do you do when the whole economy is made up of antiquated, state-owned firms that can't be made profitable?

In the August/September *The World Today*, Roland Schönfeld reports the problems that the Germans have had in selling off state-owned businesses in the eastern part of Germany. Most service-based companies—hotels, stores, restaurants—have been sold. West German electrical power companies have bought their eastern counterparts, and west German construction companies have found that buying an east German firm ensures lucrative government contracts. But most of the firms the German government owns in that nation's eastern part have a hard time finding buyers.

In many cases, the *Treuhandanstalt*, the German quasi-governmental agency that owns thousands of eastern German businesses, has allowed Communist managers of these firms to keep their jobs, even though these managers couldn't compete in a free market. West German unions, backed by corporate heads fearing the entry of lower-cost east German rivals, have called for equal pay for their eastern counterparts. And some east German states have subsidized failing firms as a way of keeping voter loyalty.

The result, says Schönfeld, is that the *Treuhandanstalt* is ensuring that thousands of inefficient businesses are allowed to continue. "Scarce capital is being wasted," Schönfeld writes. "Workers are being kept in the wrong jobs and deceived about their chances to remain there. Private enterprises are pushed out of the market by heavily subsidized competitors underselling them."

In the July/August *International Economy* Gabriel Schoenfeld of the Center for Strategic and International Studies observes that something similar appears to be happening with Russian agriculture. While the number of private farms in Russia has increased from 231 in April 1990 to about 95,000 in April 1992, these farms are still dwarfed by huge collective farms and an inefficient state-run distribution system that ensures that private farmers have a hard time getting fertilizer and other supplies. (The efforts of the Yeltsin administration to stop hyperinflation by restricting credit also hurt private farmers, who need access to money to expand.) Moreover, polls say that only about 10 percent of the people who work in collective farms want to leave them for private ventures.

Schoenfeld reports that food production in Russia will tumble by 18 percent in 1992 and that a third of Russian cities don't have meat in their stores. And many collective farms, under pressure to privatize, decided to stop describing themselves as collectives; instead they call themselves "joint-stock companies," "people's enterprises," and "cooperatives" while resisting substantive change. (For more of Schoenfeld's reports, I recommend *Post-Soviet Prospects*, an excellent newsletter that Schoenfeld edits.)

Does this inertia and stagnation mean that the nations of central and eastern Europe are doomed to economic misery and tribal warfare? Not necessarily. Tina Rosenberg highlights one promising development in a hard-hitting article in the September *Harper's Magazine*.

Rosenberg describes the Hungarian Federation of Young Democrats (FIDESZ). The only political party in the world with an age limit (no one over 35 can join), FIDESZ parliamentarians do things that the older generation finds shocking. The women wear miniskirts! The men wear earrings! FIDESZ members read F. A. Hayek—for fun!

For the older Hungarian dissidents, who spent their days lying in their garrets and dreaming of Sweden, such tactics and principles were quite shocking. For FIDESZ leaders saw the idea of a "third way" or "socialism with a human face" as tired old rhetoric. In the 1990 Hungarian elections, the former Communists ran advertisements with photos of Spanish socialist Prime Minister Felipe González and French socialist Prime Minister François Mitterand. Other parties ran ads "stylistically reminiscent of the agriculture ministry's announcements on potato production."

FIDESZ ran rock videos and a poster showing two couples kissing. The top half showed Communist tyrants Leonid Brezhnev and Erich Honecker bussing each other in fraternal passion; the bottom half showing a young couple kissing in a park. The two photos were separated by a slogan—"TESSEK VALSZTANI"—Make Your Choice. The voters did, giving FIDESZ 22 out of 386 seats and several mayoral positions.

Once in power, FIDESZ continued to produce an uncompromising libertarian message. Their message and their youth, says Rosenberg, ensured that the party became more popular than ever—and may well win Hungary's 1994 elections. While Rosenberg doesn't agree with FIDESZ's devotion to the market, she argues that FIDESZ's tactics and programs may well be the only ideas that "lure people away from a far more dangerous path" of socialism and nationalism.

"The continent of the Prague Spring has vanished," Rosenberg writes. "Today the most important ideological figure in Eastern Europe is Margaret Thatcher."

Rosenberg illustrates her point with a Czech joke comparing that nation's one-time president, social democrat Václáv Havel, with his more market-oriented prime minister, Václáv Klaus. Havel sees a beggar who tells him that he is so poor that he lives on grass. Havel gives him a wad of bills. The beggar than goes to Klaus and repeats his story. Klaus gives him a subway ticket, saying "the grass is better downtown."

The joke is harsh, but it makes an important point. Eastern and central Europe are going through a hard time. Many people there will have little to eat, and many more will suffer because of fratricidal wars. But in the long run, the parties of the future, led by FIDESZ and Václáv Klaus, will ultimately triumph over the parties that promise only nostalgia and inertia. The best way to help the entrepreneurs of the East is by buying their goods. The nations of eastern and central Europe need customers. They don't need any more rhetoric, guns, or bombs.

Contributing Editor Martin Morse Wooster is a writer, editor, and researcher living in Silver Spring, Maryland.

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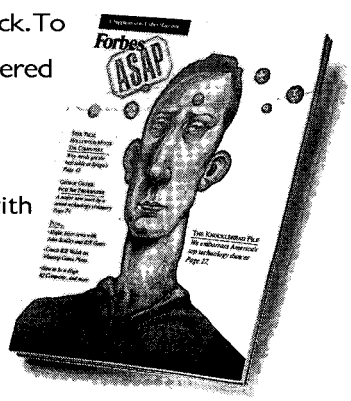

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Paglia's Personae

BY CATHY YOUNG

Sex, Art, and American Culture, by Camille Paglia, New York: Vintage Books, 337 pages, $13.00

"The thing about Camille Paglia," a friend of mine recently remarked, "is that she's really a performance artist." Indeed, the latest work by the author of *Sexual Personae*, who has been called a maverick feminist, a woman-hater, an intellectual terrorist, and "Ayn Rand on mushrooms," is best understood as performance art—circles above Karen Finley.

A collection of essays, op-ed pieces, and reviews, *Sex, Art, and American Culture* also includes excerpts from Paglia's interviews and a transcript of a lecture at MIT (complete with "ums" and "likes" and stage remarks such as "*imitates smug, airy woman professor*"). An appendix features "cartoon personae" of our author/heroine and an 11-page bibliography of Paglia-related media items ("Moody photos of a warlike Paglia at the Providence airport"). It's a tribute by Paglia to the Paglia phenomenon.

This relentless self-aggrandizement and egocentricity—references to "the author as Amazon epic quester," descriptions of her "transsexual" childhood Halloween costumes—would be unbearably obnoxious if Paglia weren't so charmingly candid about it, characterizing herself as an "egomaniac." Underneath the histrionics, there is a wealth of dazzling ideas about sex, art, American culture, and anything else that comes along—ideas that make you want to cheer one minute and scream the next.

As befits a "pagan mythomane," Paglia displays enough personae to justify every label. There's the rugged feminist invoking Amelia Earhart as a symbol of

Camille Paglia is a lifelong rebel against conventional sex roles.

"female freedom, thought, and movement" ("She is woman alone. Not woman hand-holding in a group and whining about men"). There's the misogynist who extols male homosexuality as "the ultimate point on a track of intensifying masculinity shooting away from the mother" and sees culture as a product of man's "revolt from woman." There's the neocon who fears that the dismantling of social controls leads to barbarism: "We painfully discovered that a just society cannot...function if everyone does his own thing....Everyone of my generation who preached free love is responsible for AIDS." There's the sexual radical, "pro-pornography, pro-prostitution, pro-abortion" (no "pro-choice" wimp-out for her!), sneering at the narrow-mindedness of gay activists who label a married man with occasional male lovers as a closeted gay: "What if he's just married and likes to sleep with men now and then? What's *wrong* with that?"

Paglia also calls herself a libertarian, opposed to "intrusions of the state into the private realm" of sexual behavior and drug use (though she strongly condemns the latter as destructive to body and mind). She is obviously less interested in state intrusions into the marketplace, and she offers a few wacky ideas like federal subsidies for rock music. But she also pooh-poohs leftist whining about heartless American capitalism ("I know that, in America and under capitalism, I am the freest woman in history") and warns that a risk-free society cannot exist "except in a totalitarian regime of bloated centralized authority."

When Paglia criticizes modern American feminism, "trapped in a princess mentality of snippy entitlement," she is on target most of the time. Having recently attended an academic feminist conference, I can vouch for the accuracy of Paglia's assessment: "Women's studies is a comfy, chummy morass of unchallenged groupthink....Feminists are always boasting of their 'diversity' and pluralism. This is like white Protestants...when they controlled American politics, finance, and academe, claiming diversity on the basis of their dozens of denominations."

If her goal, as she claims, is to save feminism from itself—from the whine of victimization and the puritanical suspicion of beauty and sensuality—I'm with her. Nor am I fanatically opposed to the possibility that some sex differences are rooted in biology and hormones. But Paglia's endeavor to revive sexual archetypes comes close to biological determinism (a charge she denies). We are all, she says, a mix of male and female traits—but basically men are aggressive, creative, ego-driven while women are passive, placid, mysterious. Forgetting her own rapturous description of feminine glamour as "a supreme artifact of civilization," she pronounces, "A woman simply is, but a man

LARRY FORD

must become."

The irony of this view coming from a woman of so macho a temperament does not escape Paglia. Yet her own experience, she says, has forced her to "acknowledge that even a woman of abnormal will cannot escape her hormonal identity." A lifelong rebel against conventional sex roles, she finds that in some irreducible ways her self is female. If this means that Paglia is the outer limit of liberation from traditional femininity, then we shouldn't worry about it too much; most of us still have a long way to go.

Feminists are lambasted for ignoring "woman's cosmic dominance" through motherhood and sex. Urging contemporary women to recover their power as bewitching objects of male desire, Paglia strangely equates this power of seduction with assertive female sexuality—though I would think that the freeing of female desire gives men a similar power to bewitch women. (Indeed, discussing her idol Madonna, Paglia seems to suggest that the fully sexual woman is both dominatrix and slave.) Moreover, as Paglia's own discourse amply shows, the "cosmic dominance" is a double-edged sword for women. It can be used to explain, if not rationalize, both the historical subjugation of women and modern sexual violence as something like male self-defense.

Actually, much of what Paglia has to say about "date-rape propaganda" is sensible. She mocks claims that sex must involve "consent as explicit as a legal contract" or that a woman has a "right" to act as provocatively as she likes: We also have the right to leave a car in New York with the keys on the hood, but it would be dumb. Nowadays, that sort of common-sense remark is enough to stir up accusations of condoning rape, which is idiotic.

Unfortunately, Paglia doesn't stop there, charging onward through a thicket of contradictions. "Rape is an outrage" and should be reported to the police; however, if she were raped by an acquaintance, she wouldn't press charges: "I would say, 'Oh well, I misread the signals.' " She repeatedly asserts that "ethical men" do not rape and that a civilized society must teach men to curb their violent instincts. But wait a minute: "We cannot regulate male sexuality. The uncontrollable aspect of male sexuality is part of what makes sex interesting. And yes, it can lead to rape." So be a good Amazon and accept that risk as the price of sexual freedom, or "stay home and do your nails."

To Paglia, liberal delusions about rape stem from a naive view of sex as nice and nurturing, a blindness to the turbulent dangers of Eros. Here, too, she has a point. "The Joy of Presbyterian Sex," in which she takes on the 1991 report of the Presbyterian Church committee on sexuality—its mushy egalitarianism that locates all evil in bad social institutions, its sanitized "vanilla sex, smothered in artificial butterscotch syrup"—is one of the most lethally brilliant pieces in the book.

But in her fight to take sex back from the "Betty Crockers," Paglia overemphasizes its dark side. She turns anonymous sex in men's restrooms into a transcendent act of freedom and speaks with barely concealed scorn of "tender, safe, clean, handholding" gay couples. Her kindest reference to marriage is reserved for wife beating, which, she argues, is really about "hot" and "kinky" sex: "If gay men go down to bars and like to...have their asses whipped, how come we can't allow that a lot of wives like the kind of sex they are getting in these battered-wife relationships?"

The wacky, fire-eater aspect of the Paglia persona is hugely entertaining, but it cannot fail to have a deleterious effect on her ability to be taken seriously. And that's too bad, because Paglia has some very serious things to say about contemporary culture, and she can say them magnificently. She is a crusader striving to cure the arts and humanities of "the disease of the small"—minimalism, overspecialization, fragmentation. She rejects "the modernist view of the 'discontinuities' of experience and of a meaningless universe," and the aridity of modern scholarship, "passionless and humorless." She wants to reclaim both the sensual pleasure of art and its ability to speak to us about the universe and about ourselves.

She is at her best when she trains her sights on modern universities ("the bland leading the bland"), particularly in "Junk Bonds and Corporate Raiders," which starts as a review of two books on ancient Greece—persuasively exposing their shoddy scholarship and politicized pretensions—and turns into a full frontal assault on the dominance of deconstructionists, poststructuralists, and other followers of French intellectual fads in American academe. (The word-game literary method of deconstruction guru Jacques Derrida is, Paglia quips, "masturbation without pleasure.") She argues for a scholarship that combines passion for the subject and rigorous intellectual discipline, a solid grounding in the great works of the past and a capacity for truly radical thought and exploration.

Paglia's proposals for academic reform include requiring humanities professors to have "overall mastery of the Western artistic and intellectual tradition" and "ability to relate [it] to other world traditions," instead of the current narrow specialization ("non-dramatic literature, 1660-1740"), and expanding contacts between the academy and the outside world: "Instead of schmoozing with other academics at conferences, faculty should be required to do outreach work via general-interest community lectures at public schools, libraries, and churches."

Some have been tempted to dismiss Paglia's meteoric rise to celebrity as a sensational flash in the pan. I happen to think she has enough intellectual substance to last. But when you are saying controversial and unpopular things, it hardly makes sense to expose yourself to ridicule. In her MIT lecture, pointing out that sometimes women are held back by their own flaws rather than male conspiracy, Paglia laments the way two major women intellectuals of our age, Susan Sontag and Germaine Greer, have "self-destructed." Surely, being an avid student of Freud, she has heard of projection.

Contributing Editor Cathy Young is a freelance writer in Middletown, New Jersey.

Giants and Pygmies

BY PAUL H. WEAVER

Capitalist Fools: Tales of American Business, from Carnegie to Forbes to the Milken Gang, by Nicholas von Hoffman, New York: Doubleday, 313 pages, $22.50

In his 11th book, Nicholas von Hoffman has lost none of the pitbull aggressiveness and razor-blade lethality that made him the enfant terrible of left-liberal journalism in the '60s. By the time the preface is half over, the author has his Freddy Kruger finger knives on and is penetrating the jugular of a deliciously vulnerable subject, the corporate chief executive officer.

But a funny thing happened on the way to the abattoir this time. The writer fell in love with some of his villains.

Originally, the book was supposed to be a hatchet job on Malcolm Forbes, the proprietor of the eponymous business magazine who a few years back caused a furor by throwing a multimillion-dollar birthday party for himself and flying hundreds of the rich and famous to Morocco for a celebratory lifestyle augmentation. The ink on von Hoffman's book contract was barely dry, however, when Malcolm died and his obituaries disclosed that the capitalist tool had been a closet homosexual. Suddenly it wasn't politically correct to trash Malcolm, not even as a symbol of the wretched excess of the Reagan-era rich.

So von Hoffman wrote Malcolm out of the story. The book was recast as a portrait of Malcolm's peers, the CEOs, and it was decided that as much attention would be paid to earlier generations of business leaders as to Malcolm's contemporaries. Malcolm and his father, magazine founder B. C., a Hearst alumnus and Scottish immigrant who pronounced his name the old-country way, FOR-bes, would play cameo roles. Plan B in hand, the author canceled his interview schedule and went off to the library to read business history.

There in the stacks, Nick von Hoffman, child of the New Left, lost his heart to the robber barons. The men who invented the corporation in the second half of the 19th century and the first decades of the 20th century, von Hoffman writes, were rough customers, and some of them were crooks. But they were real people creating real products and businesses bringing real benefits to customers and society.

Rockefeller, monopolist and terrorist though he may have been, did sell oil for less than what the competition was charging and brought home lighting to the masses, extending the usable day and significantly boosting the quality of life. Pulitzer and Hearst were sensationalists and megalomaniacs, but they made news accessible in a semiliterate, largely immigrant urban society. Sam Insull, the man who transformed electric power from a mishmash of small competing electric companies into vast regulated monopolies, may have been a criminal stock manipulator, but his vision of cheap electric power remade America. The same goes for Theodore Vail, the apostle of a universal telephone monopoly. Von Hoffman even celebrates William K. Vanderbilt—the man who said, "The public be damned"—for building strong railroads providing stable, integrated services on a continental scale.

Von Hoffman fell in love with the robber barons' minds as well as with their achievements. These, he found, were men passionately pursuing large ideas in science, technology, organization, and management. Pierre du Pont and William Durant and Alfred Sloan were veritable Einsteins of the modern business organization. Charles M. Schwab, the brilliant U.S. Steel executive who invented the modern I-beam and, after U.S. refused to use the idea, left the company to run Bethlehem, was the ultimate business intellect, von Hoffman kvells, wrapped up in high-tech creativity, practically a Mozart of management and metals.

They weren't perfect, von Hoffman concedes. The CEO disease—insatiable egomania; feverish lust for money, perks, and pleasures of the flesh; and an underlying belief that *la corporation, c'est moi*—was present at the creation. But their vices were minor afflictions. The robber barons were giants who created modern business and society. In any sensible scale of values, their peccadilloes didn't amount to a hill of beans.

The book was supposed to be a hatchet job on Malcolm Forbes. But author Nick von Hoffman, child of the New Left, fell in love with the robber barons' minds as well as their achievements.

Today's CEOs, by contrast, are pygmy voluptuaries without redeeming social value, von Hoffman argues. They build nothing. They know nothing. They are parasites on the body corporate, abusing the powers of their offices to give themselves astronomical compensation deals and princely lifestyles and corrupting organizations whose purpose is to produce goods and services of ever greater modernity and with ever greater efficiency. They are the wreckers of American society, whose growth they are blocking and whose resources they are dissipating.

The culture of the CEO came into its own during the postwar years, von Hoffman writes. Its first major scam was the concept of the diversified corporation, organized as a holding company, comprising any number of separate business units, and focused on expanding into new industries by acquisition. The cover story was that it would achieve new efficiencies from synergy. The real goal was to balloon revenue and profit growth artificially, add new layers of bureaucracy, and levitate top management's compen-

sation, generally based on company size.

It was management by Ponzi scheme, and the markets quickly rendered a harsh judgment. Throughout the 1970s and '80s, most big, diversified companies were worth more broken up into separate business units than they were worth whole. Bringing various businesses under a single management's control, in other words, destroyed rather than created value. This set the scene for the pygmy parasites' next major scam: the leveraged buyout, in which managers liquidated their failed strategy by buying up their companies at depressed open-market prices, selling off some or all of the business units, and sharing with investment bankers and junk-bond holders the vast profits that resulted.

Not all businessmen are like that, von Hoffman concedes. There are "hundreds of thousands of business executives who do their jobs superlatively well." To these stalwarts of productivity and creativity "the rest of us owe so much." Alas, we may not be able to count on them to make up for the pygmy voluptuaries' rip-offs, for they're up against another negative force, invited and in many cases actively sought as a result of the aggressive stupidity of CEOdom: big government.

"The one mitigating circumstance business can justifiably plead [in extenuation of its poor performance] is government," von Hoffman writes, in a statement that could have been lifted from *The Wall Street Journal*'s editorial page. Government hasn't "learned to regulate effectively at a cost which business and society can bear. The problem with the Reagan Revolution is that it didn't revolt. The paperwork, the legal costs, the delays and foul-ups were as great from a business point of view when he left office as when he arrived. Yes, the business plaint about government interference is self-serving, but that doesn't necessarily mean it is untrue. If consumer groups and other special pleaders want anything in the long run beside less merchandise of poorer quality at higher prices, they will have to learn that not all business squeals of pain arise from greed denied. The making of the things we need and want...at prices we can afford to pay is the obligation of business, but the maintaining of a society to make it possible for business to live up to its obligations falls on us all."

It's an astonishing statement, considering the left-wing politics of the source. But free-marketeers shouldn't congratulate themselves on winning another convert to the faith of Adam Smith. Von Hoffman's sympathy for business is utilitarian in nature. He likes the well-run corporation and the robber barons for the specific social benefits they provide, not because he believes in freedom. Von Hoffman goes to some trouble to express his contempt for the idea of the free market, which he dismisses as a "dumb...hypothetical construct."

The way to reverse our decline and wipe out the CEO disease, then, isn't a strengthening of market mechanisms, in von Hoffman's view. What's needed is merely some "deliberate and thoughtful action"—that is, pragmatic, case-by-case decisions carefully insulated from, rather than informed by, the "hypothetical constructs" some of us call principles. Von Hoffman means it. His one concrete policy proposal is federal chartering of corporations, a pathetic leftover from the old Nader agenda that, in practice, would afford the same hog-heaven comforts to pygmy-voluptuary CEOs across the board that, as the policy of the Federal Communications Commission, it has been affording heads of regulated radio and TV companies for upwards of half a century.

This, of course, is where Nick von Hoffman and the New Left came in three decades ago, with their ideology of "just do it"—the infantile belief that spur-of-the-moment protest and off-the-top-of-the-head polemics could be the stuff of a genuine democratic politics, and that sober deliberation and traditional political philosophy were a crock. Nick von Hoffman fell in love with the robber barons not because he's becoming reconciled to business or the market but because he's still afflicted by the peculiar New Left blindness to the philosophical and ethical dimensions of politics.

Contrary to von Hoffman and the conventional wisdom, the true problem with the robber barons wasn't that they were a

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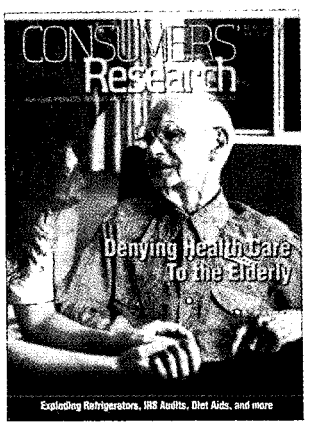

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bit greedy. It was that most of them rejected the idea of the market and pursued monopolistic business strategies. The men who built the corporation were trying to transcend the limited state, the free market, and representative politics. The institutions they created were designed not only to produce new goods and services but to do so in ways that would enable them to gain competitive advantage and extract monopoly rents. They tried anything they thought might work to these ends—government subsidies and charters, cartels, regulatory barriers to entry or technological change or lower price, systematic bribery of legislators, whatever. To classical liberals, then and now, this indifference to Lockean ideals, this rage to control rather than submit to the market process, was their besetting sin.

To von Hoffman, of course, the robber barons' hostility to the market is no great negative; it may even be a part of their charm for him. But it also brings to light the weakness of von Hoffman's critique of today's CEOs. For the only fundamental difference between the corporate founders von Hoffman admires and the successors he scorns is that the first generation of would-be exploiters had no choice but to build, since nothing was in place that would enable them to realize their exploitative ambitions, whereas the later generations of CEOs, who came into power at a time when all manner of limits on the market were in place, could enjoy the luxury of taking without giving. In short, the difference between the early good giants and the later pygmy wreckers lay not in their intentions, only in their circumstances.

Von Hoffman doesn't see this. To him, with his perverse disdain for the ethical abstractions that spell the difference between peaceful civil-rights protests (New Left, circa 1963) and active support for the totalitarian butchers of Hanoi (New Left, circa 1968), there are, in the end, only good guys to promote and bad guys to be put down. Contrary to the philosophy of this book, however, what makes good business executives the socially useful folks von Hoffman concedes they often are isn't some mysterious personal knack for pragmatism or altruism. It is, as management expert Tom Peters has done so much to explain over the past decade, a positive personal and institutional commitment to the values of liberal political economy, in particular to the ethic of the informed, consenting, mutually beneficial market transaction.

In business no less than in politics, von Hoffman's supposed pragmatism is actually a philosophy of the rip-off—the same thinking that has given rise to the sleazy schemes through which the pygmy voluptuaries are enriching themselves and wrecking the country. Von Hoffman is right to denounce these schemes, and the value of his book lies in the witty acuity with which he skewers them. Too bad he doesn't see the whole picture.

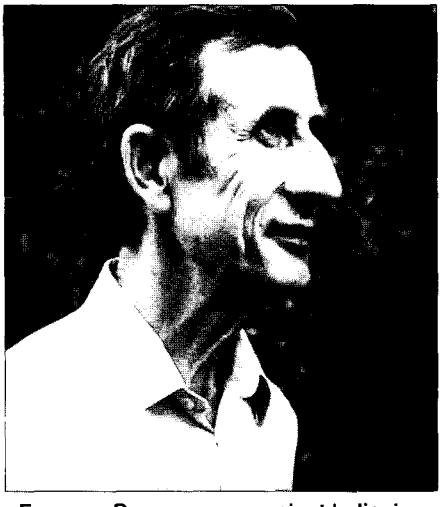
Contributing Editor Paul H. Weaver is a research fellow at the Hoover Institution and author of the forthcoming News and the Culture of Lying *(The Free Press).*

A Little Science

BY JONATHAN RAUCH

From Eros to Gaia, by Freeman Dyson, New York: Pantheon Books, 372 pages, $25.00

When I idly turned on the TV in a Dallas hotel room recently, the first thing I heard was a local anchorman burbling about the day's big piece of good news: The Superconducting Supercollider, sited near Dallas, had survived an attack in Congress. In the worldview of Dallas, this was good news for two reasons. First, the supercollider means jobs. Second, the supercollider will be approximately the biggest machine in the known universe and so will rain glory on Texas and the nation.



Freeman Dyson warns against believing we can predict the progress of science.

For some large share of the American public, that is science: big, expensive, mechanistic and mechanical, nationalistic, a kind of Olympic games of the mind. Those Americans would profit from a few hours with the physicist Freeman Dyson, whose view of science, and of life, is different. The book to begin with is Dyson's previous one, *Infinite in All Directions*, which is at once humble and brilliant, sensible and visionary. *From Eros to Gaia*, a collection of writings and speeches spanning more than 50 years, has an odds-and-ends feel and so is less compelling. Still, this new book is undiluted and, at times, radiant Dyson. And that is enough.

What is it that makes Dyson one of the finest of all writing scientists (as distinct from a science writer, which is not the same thing)? First, his view of the world. Second, his view of science. Third, his literary skill.

At the core of Dyson's outlook is a keen appreciation of a point that Americans far too often ignore: the importance of "being the right size"—the importance, in other words, of scaling every endeavor correctly, not only as to size but also as to expense and time. Quick is beautiful, says Dyson. A technological project that takes 10 years to finish is not the same as an otherwise identical project that takes only five: The 10-year project will be roughly five years outmoded by the time it becomes available for use.

The American automakers, with their slow-motion design cycles, learned the lesson of time scaling the hard way. In the car market, two "identical" sedans are not the same at all if one of them takes five years to develop but the other takes only three.

In science, and in life, Dyson is an enemy of gigantism at every turn: Just as a wedding cake can only be baked so large before it collapses, so economic planning that makes sense at the scale of a single enterprise cannot work on the scale of a nation. He is an enemy of obsessive centralism and an advocate of pluralism and flakiness, a friend of "small scale, diversity of objectives, idiosyncratic style, and a certain lack of superficial seriousness." Committees, alas, love big, one-shot projects—and when big, one-shot projects go awry, as the space shuttle program and the Hubble orbiting telescope have done, there is no ready replacement, and progress is set back by a decade or more.

"The right size," he says, "means the size at which you can afford to take a gamble." Any guesses, then, how he feels about the Texans' beloved supercollider?

Some of these 35 essays, which were produced over more than 50 years, today seem arcane or dated; but more often one is astonished to see how well Dyson's thinking has worn. He notes that global climate change may be beneficial: "I see no reason to believe that the present climate of this planet is in any sense optimal." He points out that the hidden costs of regulatory naysaying, for instance in drug approval and genetic engineering, can be tragically steep. What is remarkable is not that he made these two points, but that he made them in 1974, when they were even more unfashionable than they are today.

What to do about worrisome carbon-dioxide buildup in the atmosphere? Dyson has a proposal. He opposes drastic restrictions on fuel burning "because such restrictions are not beneficial in the short run and may not be necessary in the long run." Instead, build new reservoirs for carbon. In plain English: Plant trees! "If trees and topsoil are nurtured..., the growth of carbon dioxide in the atmosphere will be slowed down or halted incidentally." Alas, he notes, conservatives reject his plan "because it says that large-scale action by government is necessary. The gloom-and-doom environmentalists reject it because it says the situation is not hopeless." In other words, tree planting as a substitute for growth slowing is unfashionable.

But Dyson is a proudly unfashionable thinker who reminds us at every turn that intellectual fashion has its uses but that oddness, too, must thrive. "Bureaucratic regulation has a killing effect on all creative endeavor," he warns (again, in 1974). "These are the hidden costs of saying no."

Dyson's view of science is no less invigorating. Among writing scientists, his only peers are the paleontologist Stephen Jay Gould and the late immunologist Sir Peter Medawar; and like them he has done yeoman's work debunking the "Mr. Spock" model of science, in which science is a giant computer tended by a cadre of disinterested logicians. Dyson will have none of it. The driving forces of science are the ego and personal enmity, weird ventures and wild guesses, blind chance and blind ambition.

"There is no illusion more dangerous than the belief that the progress of science is predictable," he says. "The driving force of a scientific project is institutional self-aggrandizement rather than intellectual curiosity." And—the crucial point—this is as it should be. The genius of science is like the genius of markets: Science harnesses ordinary people and vulgar motives to advance the general welfare.

True, ordinary people's vulgar motives can sometimes gum up the works. In 1934 the astronomers Fritz Zwicky and Walter Baade suggested in a theoretical paper that a supernova "represents the transition of an ordinary star into a neutron star"—this only two years after the neutron was discovered. Then Zwicky and Baade had a falling out and became enemies, and their lead went unpursued for years. "If they had remained friends," Dyson writes, "neutron stars might have been discovered twenty-five years sooner, in 1942 instead of 1967."

Personalities no less than calculations are what makes science run or, at times, stall. One reason scientists sometimes work hard to test a theory, as the philosopher of science David L. Hull has noted, is to "get that son of a bitch." Generations of propagandists for science, seeking to hold it up as reason's antiseptic weapon against philistinism and superstition,

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have tried to pooh-pooh its petty and personal side. But ultimately science's talent for accommodating itself to human idiosyncrasy and coarseness is what makes it work so well. (Remember, in due course neutron stars did get discovered.) Understanding this, Dyson revels in science's grubby humanity.

Indeed, mystifying science may do real harm by persuading millions of ordinary people that they have little to contribute. Dyson fumes at "the tyranny of the Ph.D. system," which, he says, drives "many of the best and brightest of our young people, including my own daughters," from scientific careers. The Ph.D. "has become a union card for scientists," he declares, and his solution is typically Dysonesque: "I would like to give everybody a Ph.D. at birth, or on the day they enter graduate school, so that the Ph.D. would no longer be an obstacle either to education or to scientific employment. If such a rational solution of the problem is judged to be too radical, we could envisage a compromise solution in which the time required to obtain a Ph.D. is drastically shortened."

Many would disagree, but few will fail to find Dyson intellectually refreshing. He is one of those valuable writers who can change the way one thinks.

"I was a writer long before I became a scientist," says Dyson. The first line of his book is as follows: "The world of science and the world of literature have much in common." How many scientists, or poets, could have not only made that statement but supported it with 350 pages of unfailingly transparent prose?

Read Dyson for his view of the world and for his view of science, but read him also for pleasure and the warmth of his company: "Last but not least, the public can participate in science by sharing our public monuments, taking the kids for a picnic and walking through the dome of the Hale telescope in the peace of a summer afternoon on Mount Palomar, driving up Mount Hamilton by moonlight for a visitors' night at the Lick Observatory and looking at the glory of Saturn's rings through the Crossley refractor." I called him a writing scientist; "writer who does science" would be just as fitting. Either way, he is indispensable.

Jonathan Rauch, a contributing editor of National Journal, *is author of* Kind Inquisitors: The New Attacks on Free Thought, *to be published this spring by the University of Chicago Press.*

Choices, Public and Private

BY DAVID R. HENDERSON

Better than Plowing and Other Personal Essays, by James M. Buchanan, Chicago: University of Chicago Press, 194 pages, $23.95

In 1971, as an undergraduate in economics, I wrote James Buchanan a fan letter after getting excited about his book *Public Principles of Public Debt.* Imagine my surprise when I got a reply the next week. Nor was it a perfunctory reply. In his letter, Buchanan suggested that I update some of the data in his book and submit the results as a paper to the *National Tax Journal.* (To my regret, I didn't.) Those of you who know academics will know just how rare it is for a senior, internationally known scholar to give this kind of nurturing to one of his or her own students, let alone to a 20-year-old stranger.

Buchanan is well-known for nurturing students, and the Nobel Prize in economics that he won in 1986 did not seem to change that side of him. He reveals more about his own character and personality, and gives punchy commentary on various other topics, in his book *Better Than Plowing.* The title, Buchanan explains, is a description of an academic career, taken from his mentor, Frank Knight. These essays about Buchanan's roots and his thoughts about his work are probably as close to an autobiography as he will ever write. Those who, like me, are fascinated by reading about people's intellectual odysseys will enjoy much of this book.

Buchanan, who grew up in relative poverty in Tennessee, received his undergraduate education at Middle Tennessee State Teachers College in Murfreesboro. Drafted into the U.S. Navy in August 1941, he spent World War II as a lieutenant at Pearl Harbor and on Guam. One incident in the Navy stands out, in his memory and in the book. The group of cadets with which he was training in 1941 was divided alphabetically. But because there were too few *A*s and *B*s with an Ivy League background but a surplus of Ivy Leaguers in the *R*s and *S*s, an *R* was imported to head Buchanan's platoon. His name: Bill Rockefeller.

Comments Buchanan: "This initial appointment of cadet officers 'radicalized' me to such an extent that emotional scars remain, even a half century later." (To this day, Buchanan favors confiscatory inheritance taxes, a view that he admits was conditioned by that experience.)

So, writes Buchanan, when he decided after the war to do graduate work in economics, he wanted no part of "eastern establishment" elitism. He decided to attend the University of Chicago.

The decision, he recognizes, was fateful. For it was there that Buchanan met and studied under economist Frank Knight. When Buchanan arrived at Chicago, he was a self-described "libertarian socialist." He had been antigovernment but also, after having read his grand-

James Buchanan lost his basic optimism about government in the free-spending '60s.

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father's populist tracts on big business, had distrusted the establishment that he thought ran the U.S. economy. But within six weeks of enrolling in Knight's price theory class, Buchanan had become a zealous advocate of free markets.

Buchanan's main contribution to economics is his work on public choice. Public choice, in a nutshell, is based on the idea that just as consumers and producers in the private marketplace act on the basis of their self-interest, so do voters, politicians, and bureaucrats. Buchanan saw the idea of looking at the political system in this way as the obvious next step.

"Once we acknowledge that governmental or political outcomes are, themselves, produced by an interaction of persons, acting in varying political roles," he writes, "the political economist necessarily must extend analysis to the process of interaction and to the relation between process and patterns of results." With this starting point, Buchanan, Gordon Tullock, and others developed the idea that governments, no less than markets, fail in characteristic ways.

When Buchanan was awarded the Nobel Prize for his contributions to public choice, some journalists and economists complained that his thoughts about political behavior were obvious. Interestingly, Buchanan agrees. He says that at no point in writing his first book on public choice, *The Calculus of Consent*, co-authored with Tullock, was there a sense of "discovery." Rather, the exercise was "writing out the obvious." Yet when their book was published in 1962, it created a lot of excitement and led to much further analysis of political behavior.

Although Buchanan believed while working on *The Calculus of Consent* that government failed in certain ways, he still thought that it basically responded to the preferences of individual citizens. But as he observed the explosion of government spending to benefit special interests in the late 1960s, his fundamental optimism disappeared. Buchanan came to see the U.S. government as Leviathan. In his 1980 book, *The Power to Tax*, co-authored with Geoffrey Brennan, Buchanan, in his words, "explores the implications of the hypothesis that government maximizes revenues from any taxing authority" it has.

This view of the state is behind Buchanan's unwillingness to advise governments. He writes: "I have remained unable...to participate putatively in proffering advice to a presumed benevolently despotic government."

One of the book's chapters is devoted entirely to Buchanan's favorite quotes from others. Of these, the three I like most are: "You and I may both believe in planning, but my plan may be to kill you" (economist David McCord Wright). "To talk of states as if they were persons, endowed with the spiritual impulses and aspirations of human beings, and therefore morally accountable, is a piece of pure abstraction for which not even Hegel can be held responsible. It is a habit of modern journalism, catering to that mixture of vulgar passion and dominant materialism which renders unto Caesar the things that are God's because Caesar can be bribed" (W. A. Orton). "You have to belong to the intelligentsia to believe things like that; no ordinary man would be such a fool" (George Orwell).

Writing autobiographies is a new art form for economists. The only other one I know of by a recent American economist is George Stigler's *Memoirs of an Unregulated Economist*. I actually enjoyed Stigler's more because he managed to give an exciting story about his intellectual discoveries. But Stigler did not let the reader in on his own thinking about matters other than economics or on his feelings. Buchanan tried something more difficult. He wrote about his reasons for taking various actions, and he is just introspective enough to make me want more. He even writes, "I have never experienced psychological hangups," although he wisely hedges by immediately saying, "at least at any level of rational recognition." We all have hangups, and surely his about wealthy people counts. Still, Buchanan took a risk by exposing his personal side. For that he deserves credit.

Contributing Editor David R. Henderson is an associate professor of economics at the Naval Postgraduate School in Monterey and editor of The Fortune Encyclopedia of Economics *(forthcoming in 1993).*

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OUT OF THE BUSH

BY THOMAS W. HAZLETT

The American public has done for the Grand Old Party what four consecutive Republican National Conventions could not: They have weeded out George Bush. The Republicans should be thankful for the gardening assistance.

And at long last President Clinton will do for the Republicans what President Bush could not: focus them on "the vision thing." Having campaigned as a Republican out in front of camera-shy liberal Democrats, Gov. Clinton will soon assume office as a political Everyman. He told America: You got a problem? I got a program! Hit it, Arlo: You can get anything you want...at Slick Willie's restaurant.

Clinton's greatest moment on the stump was his challenge to the American voter. He solemnly asked: "Do you have the courage to change?" Courage? To grab a middle-class tax cut? To get employer-paid health insurance? To see the deficit magically vanish by virtue of economic growth? To tax the rich? Hey, no guts, no glory.

Well, I suppose that this ferocious Pander Bear might scare some small child, somewhere. Particularly if the tiny tot had taken to civics at an early age. If Clinton redeems his obligations to the Democratic Party regulars, this will require some others (read: middle-class taxpayers) to go without. The pantheon of the Democratic Party, not to mention the powers who rule Congress, did not sit way to the back of the Garden in New York just to get a kick in the pants. Now Mr. Clinton owes them. Big time.

And the rest of us: Where's our cheap medical insurance? That free ride to college or that guaranteed worker training? My middle-class tax cut? Our jobs, jobs, jobs???

The surprise element awaiting Mr. Clinton goes by the code name, "economic reality." There ain't no money! The Clinton administration is praying harder than the Republican Pentacostals ever imagined for spontaneous economic growth, because that is their one shot to underwrite the promises of Campaign '92. The bond markets (driven down weeks before the election on just the expectation of a Clinton victory) are poised to head south again. Will Clinton drive up the deficit with more spending? Sell! Will Clinton sneak some more credit out of the banks to stimulate (inflationary) growth? Sell! Will Clinton make good on his programs? Sell! Sell! Sell!

Three Southern Democrats have been elected president since World War II. All three have been one-termers, driven from office in times of increasing inflation, government confusion, and social chaos. Harry Truman's plain-talking routine dissolved into "communism, Korea, and corruption"; Lyndon Johnson's Great Society turned into the quagmire of Vietnam and rioting in the streets; Jimmy Carter's man-of-the-people schtick became swamped by social "malaise." All three were elected by overpromising on what they could deliver. Slick Willie has already performed the first half of this self-inflicted one-two knockout combination.

All of which give the decimated Republicans a future. When they come to their senses, such as they are, they will see that the removal of George Bush is indeed in the party's long-term interest. The Bush presidency was a perpetual pinball game, bouncing off the walls of political opposition but never scoring on its own. George slid into office as the "kinder and gentler" Republican, underscoring that he was no Ronald Reagan. Sadly for George, this was the one message he communicated better than anticipated.

But George was no Democrat either; he liked to tell the American public that he wasn't like those tax-and-spend liberals in Congress. But what were you, George? Are you for tax cuts, or tax increases? Well, yes and no. Spending constraints? Sometimes. Deficit reduction? Let me see—what's the Democratic position on that?

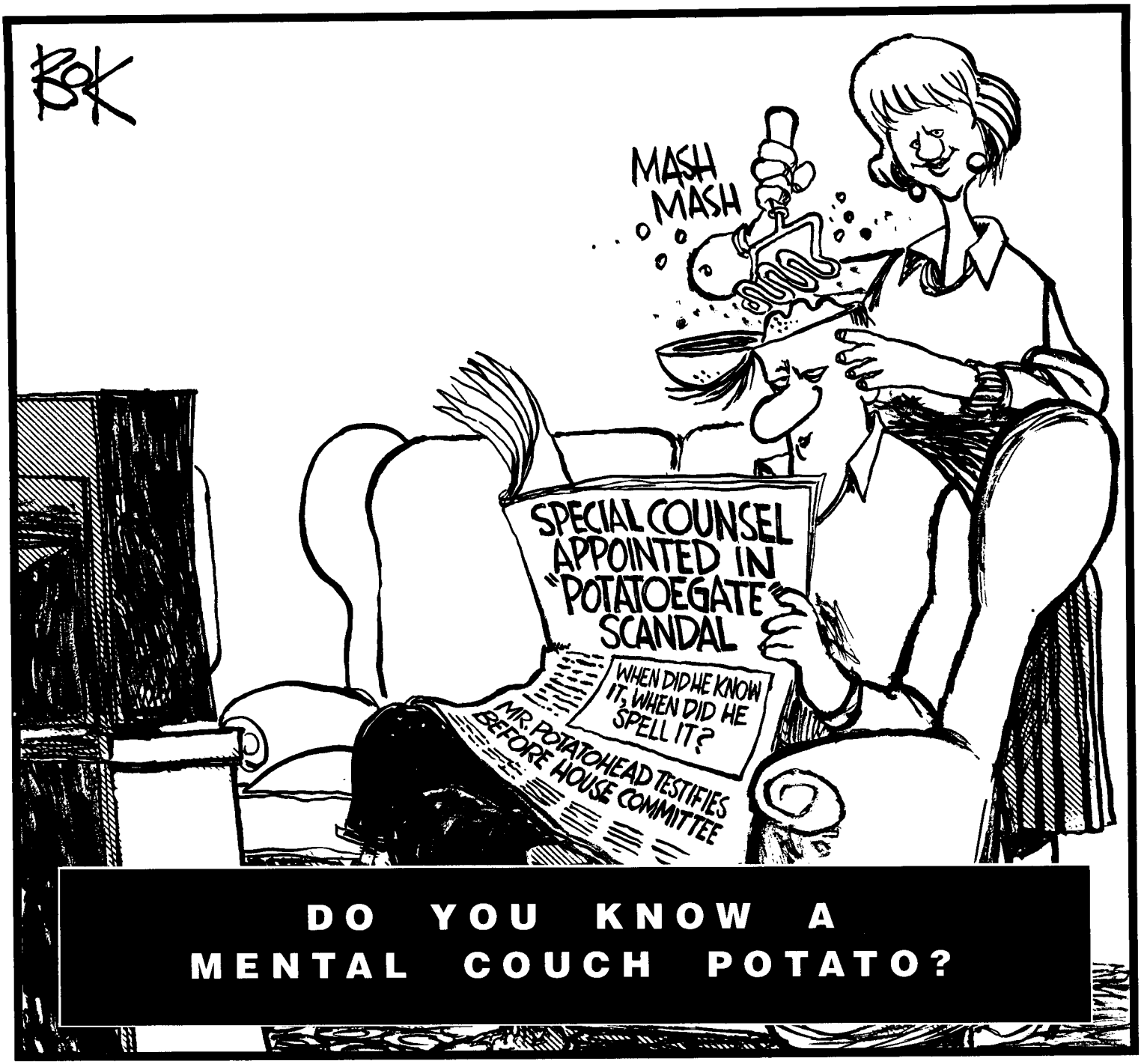
The classic Bush policy initiative was his moratorium on federal regulation. Last January, buffeted by the cold winds of the Republican right, President Bush was desperate to come up with a forceful means to jump-start the U.S. economy. Among the options available to a president of the United States, he selected federal spending caps (which he quickly and quietly abandoned, rather than force a fight with Congress) and a 90-day freeze on new federal regulations. Sounds reasonable, perhaps: Get those crazy, runaway bureaucrats to sit tight and just reflect on their anticonsumer ways for a few days.

But recall that every one of those wacky, nutty regulatory bodies was run by...appointees of the Bush administration. Why would you want to hold up your own commissioners, carefully selected to push competition and deregulation for an appreciative Republican-voting America? But the president told us he was going to stop his guys from ruining the economy. Vote for me—I won't let my people do a thing! (So proud was the administration of this brainstorm, apparently, that Bush proposed extending the freeze to one year in his Houston acceptance speech.) A thousand points of light might be on, but it was clearly time to change George's bulb.

A perfect job for the Democrats, for they will both unscrew George and focus a spotlight on their own inability to govern reasonably. Bill Clinton will reinvigorate the mandate for lower taxes, less spending, and fewer promises in a way that George Bush never could. The Democratic special interests will be back at the trough, and boy are they hungry.

Over the next four years, go long on term limits, a balanced-budget amendment, and an EPA edict declaring Pander Bears to be an endangered species.

Contributing Editor Thomas W. Hazlett teaches economics and public policy at the University of California, Davis.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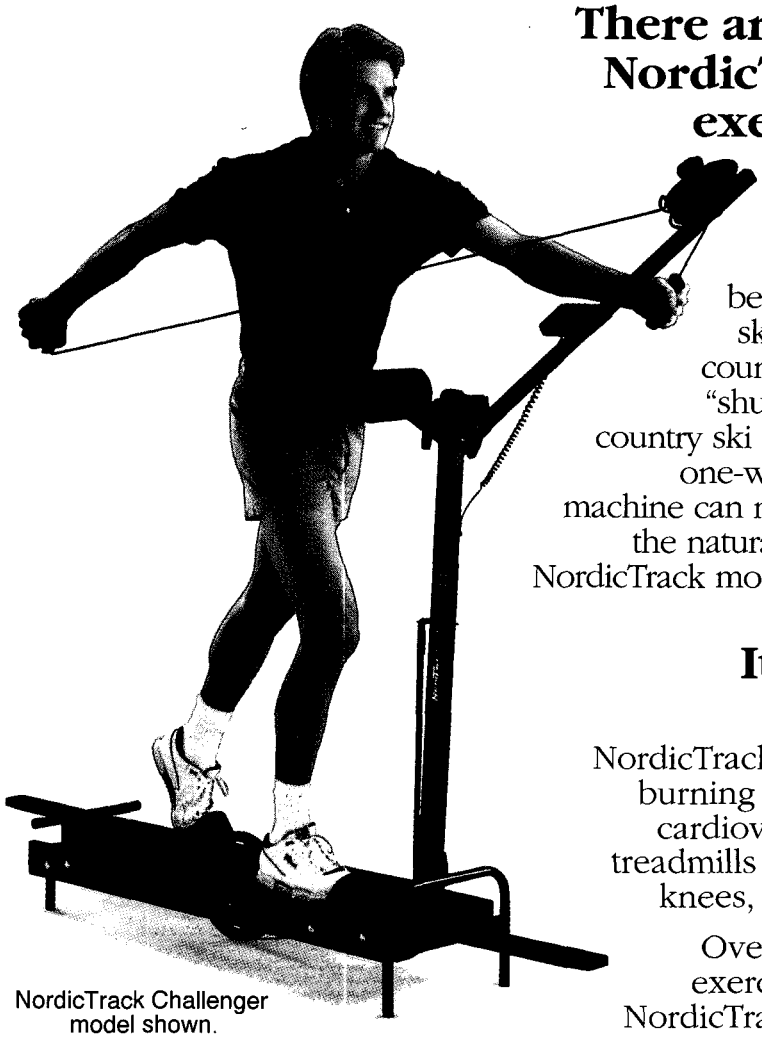

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